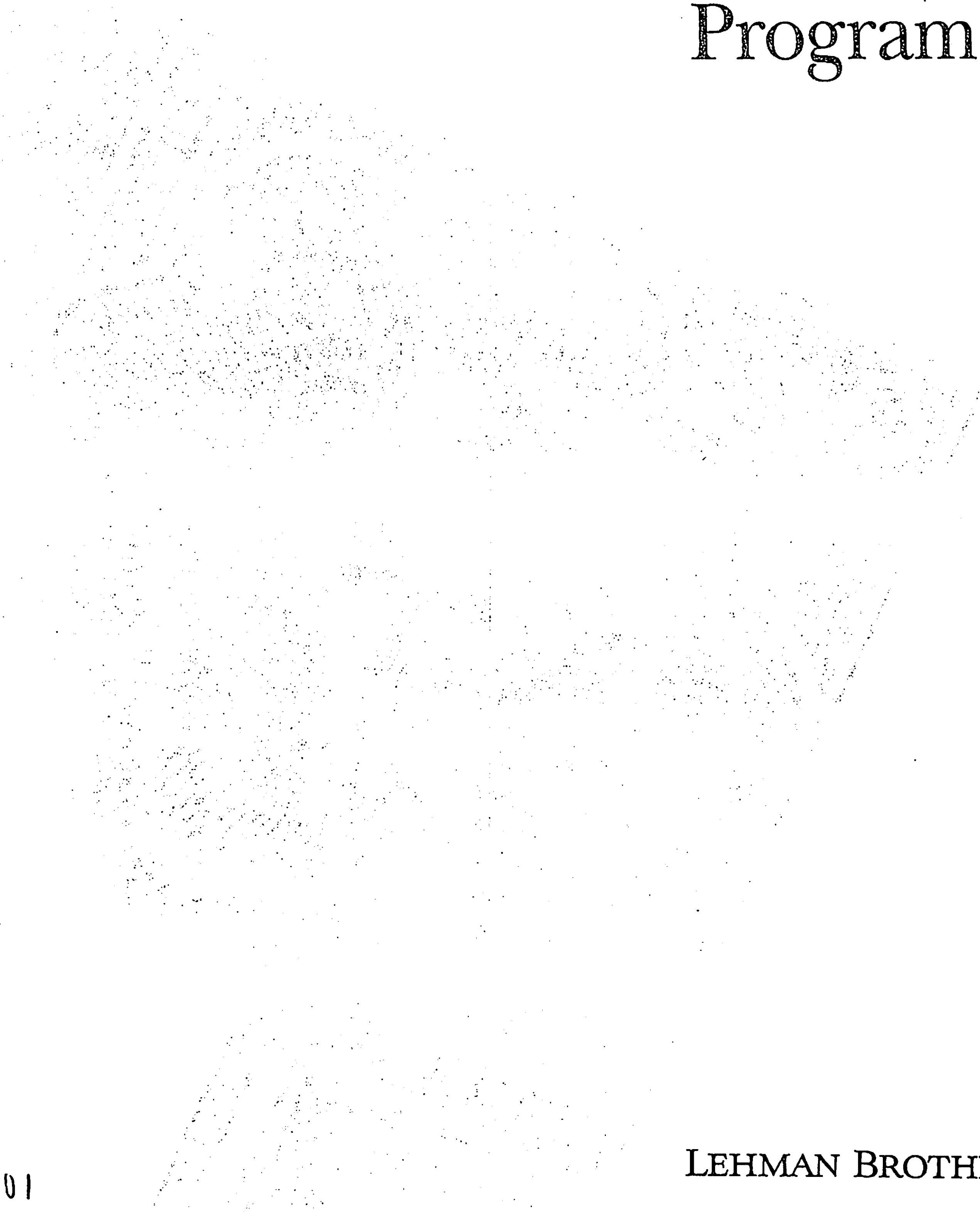
Lehman Brothers Stock Award Program



LEHMAN BROTHERS

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Lehman Brothers Stock Award Program

Contents

This brochure describes significant features of the Lehman Brothers Stock Award Program for 1994. It is not intended to replace official plan documents, and should not be considered a legal document. This brochure should be read in conjunction with the other documents enclosed.

I Document Identification	II Documents Date	Iv For Attachments to emails and Documents, the Document Name
GS - 01	October 1994	Lehman Brothers Stock Award Program
GS - 02	October 2001	Lehman Brothers Stock Award Program
GS - 03	October 2000	Lehmans Brother Offer Letter
GS - 04	9/16/08	Equity Award Program - LehmanLive
GS - 05	December 2000	Lehman Brothers 2000 Total Compensation Statement
GS - 06	12/15/01	Lehman Brothers 2001 Total Compensation Statement
GS - 07	12/16/02	Lehman Brothers 2002 Total Compensation Statement
GS - 08	12/13/04	Lehman Brothers 2004 Total Compensation Statement
GS - 09	12/12/05	Lehman Brothers 2005 Total Compensation Statement
GS - 10	12/11/06	Lehman Brothers 2006 Total Compensation Statement
GS - 11	12/10/07	Lehman Brothers 2007 Total Compensation Statement
GS - 12	2/14/01	Lehman Brothers Annual Report 2000
GS - 13	2/15/02	Lehman Brothers Annual Report 2001
GS - 14	2/17/03	Lehman Brothers Annual Report 2002
GS - 15	2/9/04	Lehman Brothers Annual Report 2003
GS - 16	2/18/05	Lehman Brothers Annual Report 2004
GS - 17	2/17/06	Lehman Brothers Annual Report 2005
GS - 18	2/16/07	Lehman Brothers Annual Report 2006
GS - 19	1/29/08	Form 10K Annual Report
GS - 20	12/10/07	Blue Sheet - Compensation Conversation - Employee #10220916
GS - 21	12/10/07	Blue Sheet - Compensation Conversation - Employee #10066483 (including Talking Points)

1994 Stock Award Program at a Glance

The enclosed Personal Award Statement details your July 1994 award.

- All bonus-eligible members of the Firm receive a portion of their compensation in restricted stock units (RSUs). Each RSU represents the right to receive one share of Lehman Brothers common stock five years after the RSU is granted.

- RSUs have been awarded to you as part of your 1994 bonus payable for the year's performance. The portion of compensation paid in RSUs increases as the amount of your total compensation rises. (For 1994, members of the Firm whose total 1993 compensation was $75,000 or less received a one-time grant of 50 RSUs.)

- For members of the Firm whose total compensation was greater than $75,000, your 1994 RSU award was determined by dividing the portion of your bonus paid through the Stock Award Program by $12 (reflecting the $15 per share closing price of Lehman Brothers stock on June 30, 1994, less a 20 percent discount provided by the Firm).

- Five years after the 1994 RSUs are awarded, the restriction period will end, and your vested RSUs will convert to Lehman Brothers common stock. Once your RSUs convert to common stock, you may continue to hold the shares or sell them, subject to any compliance restrictions on employees trading Lehman Brothers stock. The RSUs cannot be sold before conversion.

How the Stock Award Program Works

The Stock Award Program provides every member of Lehman Brothers with an ownership interest in the Firm, and requires us to hold that stake for at least five years. In doing so, the Program gives each of us an incentive to think and act like an owner every day, and allows all of us to share in the Firm's financial success over time.

For 1994, salaried, bonus-eligible employees received an award of Restricted Stock Units (RSUs) as part of their 1994 bonuses, the balance of which will be paid in early 1995. Each 1994 RSU represents the right to receive one share of Lehman Brothers common stock five years after the July 1, 1994 grant date. You can consider the RSUs as shares of Lehman Brothers common stock that the Firm holds on your behalf for five years. The RSUs cannot be sold, traded, or pledged, and they have no voting rights for that five-year period.

The Program gives each of us an incentive to think and act like an owner every day.

The Size of Your Award

The enclosed Personal Award Statement describes your participation in the Program and specifies your 1994 award. The amount of each individual's award is determined according to a schedule that specifies the awards granted at each level of compensation. Under this schedule, the portion of compensation paid in the form of RSUs increases as total compensation increases. Thus, more highly compensated members of the Firm have a greater percentage of their compensation paid through the Program.

If you joined the Firm before 1994, your award is based on your 1993 total compensation. Under the Program, 1993 total compensation includes annual base salary as of December 31, 1993, plus any additional compensation for your performance in calendar year 1993, even if some of these payments were deferred or paid in 1994. Such compensation includes [illegible] cash flow and sales points payments, commissions, bankers/ [illegible] fees, and salary supplements. If you joined the Firm between January 1 and June 30, 1994, your total compensation for the purpose of determining your 1994 award is your annual base salary as of July 1, 1994, plus any applicable 1994 guaranteed bonus amounts.

For 1994, bonus-eligible members of the Firm whose total compensation was $75,000 or less did not have any of their 1994 bonus paid in RSUs, but instead received a one-time grant of 50 RSUs from Lehman Brothers. Starting in 1995, these members of the Firm, like all bonus-eligible employees, will receive a portion of their bonuses in RSUs.

The Firm-Provided Discount

In 1994, the number of RSUs you received was based on the closing price of Lehman Brothers common stock on June 30, 1994 ($15 per share), less a 20 percent discount provided by the Firm. The net effect of the 20 percent discount is that you received 25 percent more RSUs – and, eventually, will receive 25 percent more stock – than you would without the discount.

The number of 1994 RSUs you received reflects a 20 percent discount provided by the Firm.

For example, if the portion of your 1994 bonus paid in RSUs had been $1,500, without the discount you would have received 100 RSUs ($1,500 divided by the $15 share price on June 30, 1994). Taking the discount into consideration, you would have received 125 RSUs ($1,500 divided by the $12 discounted price).

Vesting and Conversion

For RSUs awarded as a portion of your 1994 bonus, you vest in two stages:

- Eighty percent of your RSUs (excluding any fractional units) vest one year after the July 1, 1994 grant date. This means that you have a nonforfeitable right to 80 percent of the RSUs as of that date, though the Firm still continues to hold them on your behalf.

- The remaining 20 percent of your RSUs vest five years after the July 1, 1994 grant date, at which time the restriction period ends and the RSUs convert to common stock. These units are the additional RSUs received as a result of the discount provided by the Firm.

Continuing the previous example, 100 of your RSUs (80 percent of 125) would vest on July 1, 1995. The remaining 25 RSUs would vest on July 1, 1999.

The 1994 RSUs granted to members of the Firm whose total compensation was $75,000 or less will vest on July 1, 1997, three years after being granted.

All vested 1994 RSUs will convert to Lehman Brothers common stock on July 1, 1999.

The section on page 10, *If Your Employment Ends*, explains how your RSUs may be affected if you leave Lehman Brothers, including the circumstances under which you may forfeit your right to any unvested RSUs.

All vested 1994 RSUs will convert to Lehman Brothers common stock on July 1, 1999.

Dividends

Dividends may be declared from time to time at the discretion of the Board of Directors. Until your RSUs convert to common stock, if dividends are declared you will receive dividend equivalents instead of dividends. (You will even receive dividend equivalents on your RSUs that have not vested.) These dividend equivalents will be paid to you in cash, for the same amount and at approximately the same time as dividends are paid to other shareholders. Dividend equivalents cannot be reinvested in RSUs.

The 1994 Award Schedule

The participation schedule for 1994 is listed below, followed by an example of the calculations.

The portion of compensation paid in RSUs increases as the amount of your total compensation rises.

Because the Firm is introducing the Program in the middle of 1994, the percentages and base amounts in this schedule are not as high as they will be in 1995. For 1995, these amounts and percentages are expected to be approximately twice what they are in the 1994 schedule.

1993 Total Compensation Range	*Portion of 1994 Performance Bonus Paid Through Stock Award Program*
$0 - $75,000	No advance; one-time grant of 50 RSUs
$75,000 - $100,000	1.0% of 1993 total compensation
$100,000 - $200,000	$1,000 plus 3.0% of 1993 total compensation over $100,000
$200,000 - $300,000	$4,000 plus 5.0% of 1993 total compensation over $200,000
$300,000 - $500,000	$9,000 plus 7.5% of 1993 total compensation over $300,000
$500,000 - $750,000	$24,000 plus 10.0% of 1993 total compensation over $500,000
$750,000 - $1,000,000	$49,000 plus 12.5% of 1993 total compensation over $750,000
$1,000,000 - $1,500,000	$80,250 plus 15.0% of 1993 total compensations over $1.0 million
$1,500,000 - $2,000,000	$155,250 plus 17.5% of 1993 total compensation over $1.5 million

Calculating Your 1994 Award (if your 1993 total compensation was greater than $75,000)

Step	*Instructions*	*Sample Calculation*	*Sample Result*
Step 1	Start by finding your 1993 total compensation, listed on your Personal Award Statement. As an example, we'll go through the calculations for an employee whose 1993 total compensation was $150,000.	Not Applicable	$150,000
Step 2	Refer to the 1994 participation schedule to find out how much of your 1994 bonus was paid in RSUs. According to the schedule, people with 1993 total compensation between $100,000 and $200,000 had $1,000 plus 3% of their 1993 total compensation over $100,000 paid in RSUs.	$1,000 + (3% x $50,000)	$2,500
Step 3	The next step is to figure out how many RSUs were awarded to you. Divide the result from step 2 by $12 (which represents the $15 closing price of Lehman Brothers stock on June 30, 1994, less the Firm-provided 20% discount). This employee's 1994 award is 208 RSUs. (No fractional RSUs are awarded.)	$2,500 ÷ $12	208 RSUs
Step 4	To calculate the value of your 1994 RSUs on the grant date, multiply the number of RSUs by the stock price on June 30, 1994, which was $15.	$15 x 208	$3,120
Step 5	Eighty percent of the 208 1994 RSUs will vest July 1, 1995. Only whole units can vest, so you have to round down any fractions. The Firm will continue to hold these RSUs until they convert to common stock.	80% x 208	166 RSUs vest 7/1/95
Step 6	On July 1, 1999, the other 42 RSUs (received because of the Firm-provided 20% price discount) will vest. Also, all the RSUs awarded in 1994 will convert one-for-one into shares of common stock.	208 - 166	42 RSUs vest 7/1/99; All 208 RSUs convert to shares on 7/1/99

This example applies for members of the Firm whose employment continues through the end of the restriction period. See the section *If Your Employment Ends* for information on how your RSUs may be affected if you leave the Firm.

What Happens When – Time Line

- July 1, 1994 (the 1994 grant date): You are awarded your 1994 RSUs, either as part of your 1994 performance bonus or as a one-time grant.
- Early 1995: You receive the remainder of your cash bonus for 1994 performance.
- July 1, 1995: Eighty percent of the 1994 RSUs vest, for those members of the Firm whose RSUs were awarded as part of their bonuses.
- July 1, 1997: 1994 RSUs awarded as a one-time grant to members of the Firm earning $75,000 or less vest.
- July 1, 1999: The remaining 20 percent of 1994 RSUs awarded as part of 1994 bonuses vest. At this time, all 1994 RSUs (including those granted to bonus-eligible members of the Firm with compensation of $75,000 or less) convert to shares of common stock.

This time line applies for members of the Firm whose employment continues through the end of the restriction period. See the section *If Your Employment Ends* for information on how your RSUs may be affected if you leave Lehman Brothers.

Tax Treatment of Restricted Stock Units

Under current tax regulations, you will not be taxed on the value of your RSUs until they convert to common stock, except for FICA (Social Security) taxes due when the RSUs vest. As a result, your RSUs appreciate on a pre-tax basis for the five-year restriction period. (For members of the Firm whose employment status changes, special provisions apply. Please see the following section.)

Here is a summary of the taxes that are ultimately due under current tax law:

Your RSUs appreciate on a pre-tax basis for the five-year restriction period.

- At the time the RSUs are awarded, there is no taxable event.
- When your RSUs vest, you will owe FICA tax on their value. The value of the RSUs subject to the FICA tax will be the number of units vesting multiplied by the price of Lehman Brothers common stock on the date the units vest.
- After the restriction period for 1994 RSUs ends, on July 1, 1999, your RSUs convert to common stock. Ordinary income equal to the July 1, 1999 market value of your shares will be reported to the IRS, and you will be subject to tax withholding on this amount. Since the receipt of these shares is treated as compensation paid to you, ordinary income tax rates apply, rather than the special provisions dealing with capital gains.
- On July 1, 1999, when your 1994 RSUs convert to common stock, your cost basis for tax purposes will equal the market value of your shares that day. Any subsequent increases in value will be taxed as capital gains when the stock is sold. If the stock price is lower when you sell than it was when the RSUs converted, you will have a capital loss to declare.

- Any dividend equivalents that you receive from your RSUs will be treated as compensation and taxed as ordinary income when paid, subject to withholding. Dividends that you receive after the RSUs convert to common stock will be treated as dividend income, not subject to withholding.

If Your Employment Ends

If your employment with the Firm ends before July 1, 1999, the disposition of your 1994 RSUs will be determined by when you leave, why you leave, and your conduct with respect to Lehman Brothers after you leave. Depending on these factors, you may forfeit your rights to any 1994 RSUs that have not vested.

When You Leave

- If you leave before 1994 bonuses are paid, *for any reason*, all 1994 RSUs will be forfeited.

- If you leave after 1994 bonuses are paid but before the vesting dates for 1994 RSUs, unvested 1994 RSUs may continue to vest, depending on why you leave the Firm and your conduct with respect to the Firm after you leave, as described below.

Why You Leave

- If you leave voluntarily after 1994 bonuses have been paid, the Firm will continue to hold your unvested 1994 RSUs, and they will continue to vest according to the schedule described previously, provided you do not go to work for a competitor of Lehman Brothers. If you go to work for a competitor, any unvested RSUs will be forfeited immediately.

- If you are terminated involuntarily but without cause after 1994 bonuses are paid, the Firm will continue to hold your unvested 1994 RSUs, and they will continue to vest according to the schedule described previously, provided your conduct with respect to Lehman Brothers does not violate the provisions that follow.

- If you are terminated involuntarily with cause, any unvested RSUs will be forfeited immediately upon termination.

- If you die, retire, or become disabled (as defined in the Award Agreement) after 1994 bonuses are paid, all unvested RSUs will vest immediately, convert to Lehman Brothers common stock, and be paid to you or your estate following the date your employment ends. Ordinary income equal to the market value of your shares on the conversion date will be reported to the IRS, and you or your estate will be subject to tax withholding on this amount.

Your Conduct With Respect to Lehman Brothers After You Leave

You will forfeit your unvested RSUs if you leave the Firm and then:

- Use confidential information that you learned while employed at Lehman Brothers

- Attempt to solicit other Lehman Brothers employees to leave the Firm, or

- Engage in activities that are otherwise detrimental to the Firm.

Other Information

In the event of any conflict between the provisions of the Program and the information in this brochure, the official documents will govern.

Nothing in this brochure or the Program documents shall be construed to create or imply any contract of employment between you and Lehman Brothers.

All references to taxation in this brochure refer to U.S. Federal taxes and current tax law. You should consult your local tax authorities or personal tax consultant for details on the impact of tax laws in effect at the time your benefits become taxable.

If you have any questions about the Program in general, about your Personal Statement, or about your Award Agreement, call the Compensation Department, at 212/526-5126.

2001 Lehman Brothers Stock Award Program

LEHMAN BROTHERS

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2001 Lehman Brothers Stock Award Program

Contents

This brochure describes significant features of the Lehman Brothers Stock Award Program for 2001. It is not intended to replace the award agreement or other official plan documents. This brochure should be read in conjunction with the other documents enclosed.

The enclosed Personal Award Statement details your 2001 award.

2001 Stock Award Program at a Glance

- All eligible members of the Firm receive a portion of their compensation in restricted stock units (RSUs). Each RSU represents the right to receive one share of Lehman Brothers common stock five years after the RSU is granted.
- RSUs have been awarded to you as part of your 2001 compensation package for the year's performance. The amount of compensation paid in RSUs increases as the amount of your total compensation rises.
- In 2001, a portion of your stock award was priced in September and the balance of your stock award was priced in December. Generally, the Firm's stock award is made only at one time in the year, at year end.
- A portion of your RSU award was priced at $34.98, based on the closing price of Lehman Brothers common stock on September 20, 2001 ($46.64), less a 25 percent discount. The balance of your 2001 RSUs was priced at $47.55, based on the closing price of Lehman Brothers common stock on December 3, 2001 ($63.40), discounted by 25 percent.
- On November 30, 2006, the restriction period will end, and you will be entitled to receive one share of Lehman Brothers common stock for each vested RSU you hold. Once your RSUs convert to common stock, they become freely tradable. The RSUs cannot be sold, transferred or pledged before conversion.

How the Stock Award Program Works

The Stock Award Program provides every member of Lehman Brothers with a direct ownership interest in the Firm, and requires us to hold that stake for at least five years. In doing so, the Program gives each of us an incentive to think and act like an owner every day, and allows us to share in the Firm's financial success over time.

The Program gives each of us an incentive to think and act like an owner every day.

Your 2001 restricted stock units (RSUs) were awarded to you as a portion of your 2001 compensation. Each RSU represents the right to receive one share of Lehman Brothers common stock five years after the grant date, on November 30, 2006. You can consider the RSUs as shares of Lehman Brothers common stock that the Firm holds on your behalf for five years. The RSUs cannot be sold, traded, pledged, or assigned for that five-year period.

The Size of Your Award

The enclosed Personal Award Statement shows your 2001 award. The amount of each individual's award is determined according to a schedule that specifies the awards granted at each level of compensation. Under this schedule, the amount of compensation paid in the form of RSUs increases as total compensation rises. Thus, more highly compensated members of the Firm have a greater percentage of their compensation paid in RSUs.

For 2001, your RSU award was determined in two stages: in September and at year end. Your full 2001 stock award was determined at year end based on your actual compensation for 2001 and the stock award schedule shown on page 7. (The stock award made in September was a special feature for 2001. Generally, the Firm's stock award is granted only at one time in the year, at year end.)

The number of RSUs you received for 2001 was based on the price of Lehman Brothers common stock, less a 25 percent discount. A portion of your 2001 RSU award was priced at $34.98, based on the closing price of Lehman Brothers common stock on September 20, 2001 ($46.64), discounted by 25 percent. The balance of your 2001 RSUs was priced at $47.55, based on the closing price of Lehman Brothers common stock on December 3, 2001 ($63.40), discounted by 25 percent.

Salaried Members of the Firm

September RSUs: Your September RSUs were calculated based on your 2000 total compensation and the stock award schedule shown on page 7, multiplied by 50 percent. Total compensation for 2000 includes salary earned in fiscal year 2000 plus any additional compensation for your performance in 2000. Such compensation includes 2000 bonus, commissions and other compensation.

If you were hired by the Firm in 2000 or 2001 (but prior to September 20, 2001), your September award was calculated as follows:

- If you joined the Firm in 2000, your September award was calculated based on your annualized 2000 salary, additional compensation for 2000 and the higher of your 2000 paid bonus or guaranteed 2001 bonus (for employees with written bonus guarantees).
- If you joined the Firm in 2001, your September award was calculated based on the projected salary you would have earned for 2001, additional compensation for 2001 and your guaranteed 2001 bonus (if applicable).

December RSUs: Your December RSUs were calculated based on your 2001 total compensation and the 2001 stock award schedule shown on page 7, reduced by the stock award you received in September. Total compensation includes salary earned in fiscal year 2001 plus any additional compensation for your performance in 2001, even if some of these payments are deferred or paid in 2002. Such compensation includes 2001 bonus, commissions and other compensation.

If the value of your September RSUs equaled or exceeded your full-year 2001 stock award level, no additional RSUs were awarded in December.

Investment Representatives (IRs)
September RSUs: Your September RSUs were calculated based on annualized 2001 payout, after all adjustments, for production months December 2000 through August 2001 (paid from January through September 2001), and the stock award schedule shown on page 7, multiplied by 50 percent. The 2001 payout may have included regular grid production payout, certain special payments and other production payout. However, the September award could not exceed your actual accrual from January through September.

December RSUs: Your December RSUs were calculated based on your actual payout, after all adjustments, for production months December 2000 through November 2001 (paid from January through December 2001) and the 2001 IR stock award schedule on page 9, reduced by the stock award you received in September.

During any period an IR is paid a draw, RSUs are awarded with respect to the amount of the draw. If the draw ends and the IR has production payout in excess of the draw, the excess ("overage") is paid partly in cash and partly in RSUs (in the year in which the overage is paid). Note that for purposes of this brochure, all references to payout or compensation assume compensation payments that are RSU eligible only.

[illegible] production month December 2001 (paid in January [illegible] award accrual will be determined under the 2002 IR stock [illegible] page 9

> All vested 2001 RSUs will convert to Lehman Brothers common stock on November 30, 2006.

[illegible]-Provided Discount

[illegible] of RSUs you received for 2001 was based on the closing price of [illegible] Brothers common stock ($46.64 per share for September RSUs and [illegible] per share for December RSUs), less a 25 percent discount provided by [illegible] Firm. With a 25 percent discount, every $100 of compensation in RSUs gives [illegible] $133 in value. A 25 percent discount really means that the Firm "grosses up" your contribution 33 percent at the outset.

Vesting and Conversion

For purposes of discussing the vesting provisions, you should consider your RSU award as having two components: the **principal portion** and the **discount portion.** The principal portion represents the number of RSUs awarded as part of your 2001 compensation before the discount (75 percent of the award). The discount portion represents 25 percent of your total 2001 RSU award.

Provided you remain employed by the Firm, your 2001 RSUs will vest in two stages:

- The principal portion, 75 percent of your award, will vest two years after the award date, on November 30, 2003.
- The discount portion, 25 percent of your award, will vest five years after the award date, on November 30, 2006.
- Notwithstanding the above, in the event your employment is terminated with cause or you engage in Detrimental Activity prior to November 30, 2006, all of your RSUs will be forfeited. Please refer to page 15 for the definition of Detrimental Activity.
- Your 2001 RSUs will convert to Lehman Brothers common stock five years after the award date, on November 30, 2006.

[illegible] section *If Your Employment Ends,* on page 12, for a detailed [illegible] of how your RSUs may be affected if you leave Lehman Brothers, [illegible] the circumstances under which you may forfeit your right to your RSUs.

Dividend equivalents will be reinvested as additional RSUs.

Dividend Reinvestment

Dividends may be declared from time to time at the discretion of the Board of Directors. Until your RSUs convert to common stock, if dividends are declared, you will receive dividend equivalents. Your dividend equivalents will be automatically reinvested as additional RSUs. (The stock price used for your dividend reinvestment will be the closing price on each dividend payment date.)

The RSUs you receive as dividend equivalents will vest and convert to Lehman Brothers common stock on the same date as the underlying RSUs to which they relate. In the event the underlying RSUs are forfeited, the related dividend reinvested RSUs will also be forfeited.

For example: For an award of 124 RSUs, based on the current annual dividend rate of $0.36 per share, the dollar value of dividend equivalents would be $44.64 annually. In this example, assume the market price of Lehman Brothers stock on each dividend payment date is $60.00 per share.

	Number of RSUs		*Dividend Rate*		*Dividend Equivalents*		*Stock Price*		*Additional RSUs Through Dividend Reinvestment*	*Scheduled Vesting Date*
Principal portion *(75%)*	93	x	$0.36/share	=	$33.48	÷	$60	=	0.56	November 30, 2003
Discount portion *(25%)*	31	x	$0.36/share	=	$11.16	÷	$60	=	0.19	November 30, 2006
	124	x	$0.36/share	=	$44.64	÷	$60	=	0.75	

Using this example, if you should terminate your employment and forfeit the portion of your RSU award related to the 25 percent discount (31 RSUs), you would also forfeit 0.19 RSUs (the related dividend reinvestment).

Voting Rights

Lehman Brothers established a Trust and funded it with shares for your benefit to provide you with voting rights related to your RSU awards. You will be able to direct the voting related to shares held in the Trust in proportion to the number of RSUs you hold. You will continue to have these voting rights as long as you remain employed with the Firm.

2001 Stock Award Schedule

The participation schedule for 2001 is listed below. This schedule reflects the portion of 2001 compensation paid through the Stock Award Program. The size of the stock award made in September 2001 is generally half of your 2000 stock award. To calculate the September stock award, apply the 2000 total compensation against the schedule below and multiply the result by 50 percent.

Total Compensation Range	*Portion of 2001 Compensation Paid Through Stock Award Program*
$0 – $99,999	2% of 2001 total compensation
$100,000 – $199,999	$2,000 plus 6% of 2001 total compensation over $100,000
$200,000 – $299,999	$8,000 plus 10% of 2001 total compensation over $200,000
$300,000 – $499,999	$30,000 plus 16.25% of 2001 total compensation over $300,000
$500,000 – $749,999	$62,500 plus 20% of 2001 total compensation over $500,000
$750,000 – $999,999	$112,500 plus 35% of 2001 total compensation over $750,000
$1,000,000 – $1,499,999	$200,000 plus 35% of 2001 total compensation over $1,000,000
$1,500,000 – $1,999,999	$375,000 plus 45% of 2001 total compensation over $1,500,000

The amount of compensation paid in RSUs increases as the amount of your total compensation rises.

Salaried Members of the Firm: Calculating Your 2001 Stock Award

Step	*Instructions*	*Sample Calculation*	*Sample Result*
Step 1	Your full 2001 RSU award was determined at year end based on your actual compensation for 2001. The portion of your award that was priced in September was based on your 2000 total compensation. As an example, we'll go through the calculations for a participant whose 2000 and 2001 total compensation was $150,000.	Not applicable	$150,000
Step 2	To determine the portion of the 2001 award priced in September, we use 2000 total compensation and the award schedule on page 7, multiplied by 50%. According to the award schedule, an employee whose 2000 total compensation is between $100,000 and $199,999 should have $2,000 plus 6% of his 2000 total compensation over $100,000 in RSUs. Multiply this amount by 50% and the result – $2,500 – represents this employee's September RSUs.	[$2,000 + (6% x $50,000)] x 50%	$2,500
Step 3	The next step is to figure out how many RSUs were awarded in December.* Based on the schedule on page 7, the full-year stock award for this employee with 2001 total compensation between $100,000 and $199,999 is $2,000 plus 6% of 2001 total compensation over $100,000, or $5,000. This amount, less the September RSU amount calculated in step 2, gives us the December RSU amount.	[$2,000 + (6% x $50,000)]-$2,500	$2,500
Step 4	The next step is to figure out how many RSUs were awarded to this employee in 2001. To calculate the portion of RSUs awarded in September, divide the result from step 2 by $34.98 (which represents the $46.64 price of Lehman Brothers stock on September 20, 2001, less the Firm-provided 25% discount). To calculate the number of units received in December, divide the result from step 3 by $47.55 (which represents the $63.40 price of Lehman Brothers stock at year end, less the Firm-provided 25% discount). This employee's total 2001 RSU award is 124 RSUs.	$2,500 ÷ $34.98 $2,500 ÷ $47.55 $5,000	71 RSUs 53 RSUs 124 RSUs

* *Please note that if the value of your September RSUs equaled or exceeded your full-year stock award level, no additional RSUs were awarded in December.*

Note to Salaried Members of the Firm: For employees hired in 2000 or 2001, please refer to page 4 for a discussion of how your total compensation was determined for purposes of calculating your September stock award.

Note to Investment Representatives (IRs): Your 2001 stock award was accrued as a portion of your monthly payout. Please refer to the section *IRs: Calculating Your 2001 Monthly Accrual* on page 10 for an illustration of how your monthly RSU accrual was determined.

Investment Representatives (IRs): Stock Award Schedule

Total Compensation Range	2001 IR Stock Award Schedule Portion of 2001 Compensation Paid Through Stock Award Program	2002 IR Stock Award Schedule* Portion of 2002 Compensation Paid Through Stock Award Program
$0 – $99,999	2% of 2001 total compensation	*2% of 2002 total compensation*
$100,000 – $199,999	$2,000 plus 6% of 2001 total compensation over $100,000	*$2,000 plus 6% of 2002 total compensation over $100,000*
$200,000 – $299,999	$8,000 plus 10% of 2001 total compensation over $200,000	*$8,000 plus 10% of 2002 total compensation over $200,000*
$300,000 – $499,999	$19,000 plus 15.10% of 2001 total compensation over $300,000	*$30,000 plus 16.25% of 2002 total compensation over $300,000*
$500,000 – $749,999	$49,208 plus 20% of 2001 total compensation over $500,000	*$62,500 plus 20% of 2002 total compensation over $500,000*
$750,000 – $999,999	$99,208 plus 25.83% of 2001 total compensation over $750,000	*$112,500 plus 35% of 2002 total compensation over $750,000*
$1,000,000 – $1,499,999	$163,792 plus 30.42% of 2001 total compensation over $1,000,000	*$200,000 plus 35% of 2002 total compensation over $1,000,000*
$1,500,000 – $1,999,999	$315,875 plus 35.83% of 2001 total compensation over $1,500,000	*$375,000 plus 45% of 2002 total compensation over $1,500,000*

* The portion of 2002 compensation accrued for the 2002 stock award will be calculated according to the schedule above.

Investment Representatives (IRs): Calculating Your 2001 Monthly Accrual

As an example, we'll go through the monthly calculation for an IR whose 2001 total compensation was $150,000.

Step	*Instructions*	*Sample Calculation*	*Sample Result*
Step 1	Take YTD Total Payout for first month and annualize (multiply by 12 and divide by production month number).	$18,000 x 12 ÷ 1	$216,000.00
Step 2	Calculate RSU accrual from the 2001 award schedule on page 9.	$216,000	$9,600.00
Step 3	Multiply result by allocation %. Subtract previous month's YTD RSU accrual from result. This is the monthly RSU accrual.	($9,600 x 8.33%) - $0	$800.00
Step 4	Take YTD Total Payout for second month and annualize (multiply by 12 and divide by production month number).	$29,500 x 12 ÷ 2	$177,000.00
Step 5	Calculate RSU accrual from the 2001 award schedule on page 9.	$177,000	$6,620.00
Step 6	Multiply result by allocation %. This is the YTD RSU accrual. Subtract previous month's YTD RSU accrual from result. This is the monthly RSU accrual.	($6,620 x 16.67%) - $800.00	$303.33
Step 7	Repeat for next month.		

Example

#	*Pay Month*	*Monthly Total Payout ($)*	*YTD Total Payout ($)*	*Annualized Total Payout ($)*	*Annualized RSU Award ($)*	*Allocation %*	*YTD RSU Accrual ($)*	*Monthly RSU Accrual ($)*
1	January	18,000	18,000	216,000	9,600	8.33%	800.00	800.00
2	February	11,500	29,500	177,000	6,620	16.67%	1,103.33	303.33
3	March	10,000	39,500	158,000	5,480	25.00%	1,370.00	266.67
4	April	11,000	50,500	151,500	5,090	33.33%	1,696.67	326.67
5	May	12,000	62,500	150,000	5,000	41.67%	2,083.33	386.67
6	June	13,000	75,500	151,000	5,060	50.00%	2,530.00	446.67
7	July	12,000	87,500	150,000	5,000	58.33%	2,916.67	386.67
8	August	15,000	102,500	153,750	5,225	66.67%	3,483.33	566.67
9	September	10,000	112,500	150,000	5,000	75.00%	3,750.00	266.67
10	October	12,500	125,000	150,000	5,000	83.33%	4,166.67	416.67
11	November	10,000	135,000	147,273	4,836	91.67%	4,433.33	266.67
12	December	15,000	150,000	150,000	5,000	100.00%	5,000.00	566.67
Total								**5,000.00**

Investment Representatives (IRs): Calculating Your Full-Year 2001 Stock Award

As an example, we'll go through the monthly calculation for an IR with payout of $112,500 through September and $150,000 for 2001.

Step	*Instructions*	*Sample Calculation*	*Sample Result*
Step 1	The portion of your award that was priced in September was based on your compensation paid from January through September.	Not applicable	$112,500
Step 2	To determine the portion of the 2001 award priced in September, we used annualized RSU eligible payout on gross production for the months January through September. This is calculated by taking the total payout for the period of eligibility, multiplying this amount by 12, and dividing the result by the number of months of participation.	[($112,500 x 12) ÷ 9]	$150,000
Step 3	The result in step 2 is then applied to the award schedule on page 7 and multiplied by 50%. This amount represents the IR's September RSU award. Note that the September award could not exceed your actual accrual through September.	[$2,000 + (6% x $50,000)] x 50%	$2,500
Step 4	The next step is to figure out how many RSUs were awarded in December. The year end award was based on actual payout, after all adjustments, for production months December 2000 through November 2001 (paid from January through December 2001) and the 2001 IR Stock Award Schedule* on page 9. According to the schedule, the full-year award for an IR with 2001 total payout of $150,000 is $2,000 plus 6% of 2001 total payout over $100,000, or $5,000. This amount, less the September RSU amount calculated in step 3, results in the December RSU amount.	[$2,000 + (6% x $50,000)] - $2,500	$2,500
Step 5	The next step is to figure out how many RSUs were awarded to this IR in 2001. To calculate the portion of RSUs awarded in September, divide the result from step 3 by $34.98 (which represents the $46.64 price of Lehman Brothers stock on September 20, 2001, less the Firm-provided 25% discount). To calculate the number of units received in December, divide the result from step 4 by $47.55 (which represents the $63.40 price of Lehman Brothers stock at year end, less the Firm-provided 25% discount). This employee's total 2001 RSU award is 124 RSUs.	$2,500 ÷ $34.98 $2,500 ÷ $47.55 $5,000	71 RSUs 53 RSUs 124 RSUs

* *Note that the 2001 stock award schedule is a combination of the 2000 stock award grid in effect through the October 2001 production month (paid in November 2001) and the 2002 IR stock accrual schedule on page 9 that will be used for the monthly accrual in 2002.*

Your RSUs appreciate on a pre-tax basis for the five-year restriction period.

Tax Treatment of Restricted Stock Units

Under current tax regulations, you will not be taxed on the value of your RSUs until they convert to common stock. As a result, your RSUs appreciate on a pre-tax basis for the five-year restriction period. (For members of the Firm whose employment status changes, special provisions apply. Please see the following section.)

Provided below is a summary of the U.S. taxes that are ultimately due under current tax law:

- At the time the RSUs are awarded, there is no taxable event.
- After the restriction period for 2001 RSUs ends, on November 30, 2006, your RSUs, including any additional RSUs that you receive through dividend reinvestment, convert to common stock. Ordinary income equal to the November 30, 2006 market value of your shares will be reported to the IRS, and you will be subject to tax withholding on this amount. Since the receipt of these shares is treated as compensation paid to you, ordinary income tax rates apply, rather than the special provisions dealing with capital gains.
- On November 30, 2006, when your 2001 RSUs convert to common stock, your cost basis for tax purposes will equal the market value of your shares on that day. Any subsequent increases in value will be taxed as capital gains when the stock is sold. If the stock price is lower when you sell your shares than it was when the RSUs converted, you will have a capital loss to declare.

If Your Employment Ends

If your employment with the Firm ends before November 30, 2006, the disposition of your 2001 RSUs will be determined by when you leave, why you leave, and your conduct with respect to Lehman Brothers after you leave. Depending on these factors, you may forfeit your rights to some or all of the 2001 RSUs.

When You Leave

Salaried Members of the Firm:
If you leave after January 31, 2002, but before November 30, 2006, you may be entitled to your 2001 RSUs depending on why you leave the Firm and your conduct with respect to the Firm after you leave, as described below.

Investment Representatives:
If you leave before November 30, 2001, your 2001 RSU award will be based on the amount of production compensation accrued for the stock award through your termination date. Your entitlement to the 2001 RSUs will depend on why you leave the Firm and your conduct with respect to the Firm after you leave, as described below.

Why You Leave

Voluntary Termination

Resignation to a Non-Competitor:

- If you leave voluntarily and you do not go to work for a competitor of Lehman Brothers, you will be entitled to receive the entire principal portion (75 percent) of your 2001 RSUs and a pro-rata portion of the discount (25 percent of the award). The portion of the discount you receive will be prorated in 20 percent increments for every full year of service with the Firm after November 30, 2001. So, if you leave the Firm prior to November 30, 2002, you will not be entitled to receive any of the RSUs related to the discount portion. However, if termination occurs after a "Full Career" with the Firm, you will be entitled to receive the entire discount portion of your RSU award. "Full Career" termination means you have at least 20 years of service or your age and length of service equal at least 65, plus your age is at least 45 and you have at least ten years of service with Lehman Brothers. Shares of Lehman Brothers common stock will be issued to you, without restrictions, at the earlier of a) November 30, 2006 (five years after the award date) or b) the end of the fiscal quarter one year following your termination date, provided you do not engage in Competitive Activity or Detrimental Activity through that date.

Resignation to a Competitor:

- If you leave voluntarily and you go to work for a competitor of Lehman Brothers prior to November 30, 2003, you will not be entitled to the principal portion (75 percent) of your award. If you leave after November 30, 2003, you will be entitled to receive the entire principal portion of your RSU award. In either case, you will not be entitled to receive any of the RSUs related to the discount portion (25 percent) of your award. Shares of Lehman Brothers common stock will be issued to you, without restrictions, at the earlier of a) November 30, 2006 (five years after the award date) or b) the end of the fiscal quarter one year following your termination date, provided that you do not engage in Detrimental Activity through that date.

Involuntary Termination

Involuntary Termination With Cause:

- If you are terminated involuntarily with cause, your entire 2001 RSU award will be forfeited immediately upon termination.

Involuntary Termination Without Cause:

- If you are terminated involuntarily but without cause, you will be entitled to receive the entire principal portion (75 percent) of your 2001 RSUs and a pro-rata portion of the discount (25 percent of the award). The portion of the discount you receive will be prorated in 20 percent increments for every full year of service with the Firm after November 30, 2001. So, if your termination occurs prior to November 30, 2002, you will not be entitled to receive any of the RSUs related to the discount portion. However, if termination occurs after a "Full Career" with the Firm, you will be entitled to receive the entire discount portion of your RSU award. "Full Career" termination means you have at least 20 years of service or your age and length of service equal at least 65, plus your age is at least 45 and you have at least ten years of service with Lehman Brothers. Shares of Lehman Brothers common stock will be issued to you, without restrictions, at the earlier of a) November 30, 2006 (five years after the award date) or b) the end of the fiscal quarter one year following your termination date, provided you do not engage in Detrimental Activity through that date.

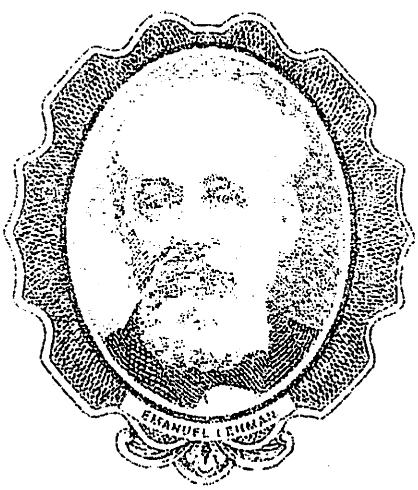
Death, Disability, Retirement

- If you die, retire, or become disabled (as defined in the award agreement), all unvested RSUs will vest immediately and convert to Lehman Brothers common stock. Shares of Lehman Brothers common stock will be issued to you or your estate, without restrictions, following your termination date.

- At the time the shares are issued to you or your estate, the market value of the shares on the payment date will be reported as ordinary income and you or your estate will be subject to tax withholding on this amount. Please consult your personal tax advisor concerning the application of federal, state and local tax rules.

Your Conduct With Respect to Lehman Brothers After You Leave

You will forfeit your unvested 2001 RSUs (and related dividend reinvestment) if you engage in Competitive Activity or Detrimental Activity.



Competitive Activity

Competitive Activity means involvement (whether as an employee, proprietor, consultant or otherwise) with any person or entity engaged in any business activity which is materially competitive with any business carried on by Lehman Brothers Holdings Inc. or any of its subsidiaries or affiliates on the date of termination of a person's employment with the Firm, as determined in the sole discretion of the Chief Executive Officer or the Chief Administrative Officer of the Firm (or their respective designees). ***Please note that the determination of competitive activity is not based on the function that an individual performs in a company but rather the nature of the company's businesses.***

financial services companies, including but not limited to, all of the "bulge cket" investment banks, many commercial banks and even small boutique-firms are considered *competitors* of the Firm for purposes of the Stock ard Program. While the Firm values its client relationships with financial stitutions, these relationships will not preclude companies being deemed mpetitors when any of their business activities may be considered competitive ith the Firm. Please consult your Human Resources representative or the ompensation Department if you have questions about a particular company.

Detrimental Activity

Detrimental Activity means (i) using information received during a person's employment with Lehman Brothers Holdings Inc. or any subsidiary, their affiliates or clients, in breach of such person's undertakings to keep such information confidential; (ii) directly or indirectly persuading or attempting to persuade, by any means, any employee of Holdings or any subsidiary to terminate employment with Holdings or any subsidiary or to breach any of the terms of his or her employment with Holdings or any subsidiary; or (iii) any activity deemed to be detrimental to Holdings or any of its subsidiaries or affiliates, in each case as determined in the sole discretion of the Chief Executive Officer or the Chief Administrative Officer of the Firm (or their respective designees).

Change in Control ("CIC") Provisions

Hostile

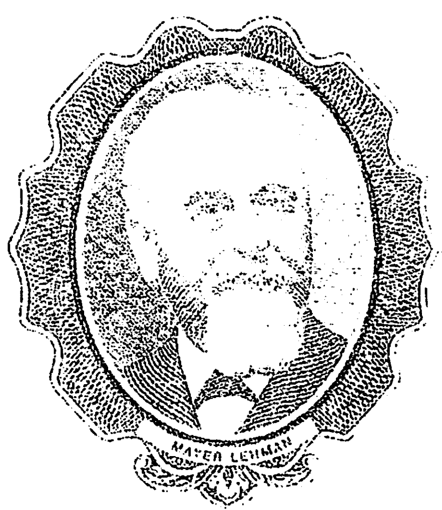
- All RSUs vest immediately.
- Shares of Lehman Brothers common stock will be issued immediately so that you may tender your shares with other shareholders.

Friendly

- Upon the CIC, you will receive the undiscounted award price for your RSUs ($46.64 x your number of September RSUs and $63.40 x your number of December RSUs) in either cash or equity.
- The additional value of the RSUs in excess of the undiscounted RSU award price will be paid on the Payment Date, defined as the earlier of:

  a) two years following the CIC or

  b) November 30, 2006 (five years after the award date).
- The RSUs (or cash balance) will remain subject to the vesting and issuance restrictions (including the provisions related to Competitive Activity and Detrimental Activity) through the Payment Date.



Payment of RSUs Upon a Friendly Change in Control

EXAMPLE: Let's use as an example a participant whose 2001 compensation was $150,000. The amount of compensation paid in RSUs (for September and December 2001) was $5,000 (for 124 RSUs at a market value of $6,671). Assume there is a Change in Control and the market price for Lehman Brothers stock at that time is $100 per share.

Undiscounted purchase price:

- Upon a Friendly Change in Control, this participant receives a payment of shares (or cash) equivalent in value to the original award, $6,671. Assuming a market price of $100, this participant would receive 67 shares.

Premium over undiscounted price:

- The additional value of the RSUs, in excess of the original award value, $5,729 ((124 RSUs x $100) - $6,671), will be held on the participant's behalf in either cash or equity of the successor entity.

- The payment (in either cash or equity of the successor entity) will be subject to the same vesting and issuance restrictions as the RSU award.

- Assume the participant leaves within two years of the Change in Control:

  - The participant will be entitled to 75 percent of the additional value of the RSUs, in excess of the original award value ($5,729 x 75% = $4,297), provided no Competitive Activity or Detrimental Activity for a period of one year after termination date (or the second anniversary of the Change in Control, if sooner).

  - The participant will also be entitled to a pro-rata portion of the remaining 25 percent of the additional value of the RSUs (in excess of the original award value) based on the number of years completed after the RSU award date (e.g., if termination occurs during 2004 (but before November 30, 2004), 2/5th of the remaining amount or $573).

  - In total, the participant will receive $4,870 ($573 plus $4,297) or 49 shares. In this example, the participant receives 85 percent of the additional value of the RSUs in excess of the original award value.

- Please note that this value may be converted to shares of the successor entity. In this instance, the above percentages will be applied to the converted shares.

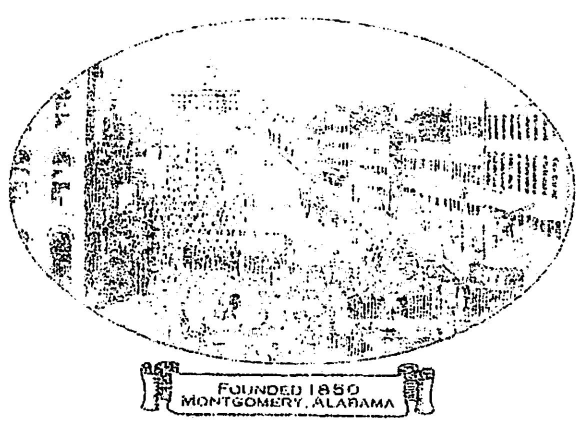
Other Information

In the event of any conflict between the plan documents (including, but not limited to, the restricted stock unit award agreement, the Employee Incentive Plan and the Employee Incentive Plan Prospectus) and the information in this brochure, the plan documents will govern.

Nothing in this brochure or the plan documents shall be construed to create or imply any contract of employment between you and Lehman Brothers.

All references to taxation in this brochure refer to U.S. federal taxes and current tax law. You should consult your local tax authorities or personal tax consultant for details on the impact of tax laws in effect at the time your RSUs become taxable.

If you have any questions about the Program in general, about your personal award statement or about your award agreement, call the Compensation Department at 201-524-4624 (4-4624), or for IRs, your PCS Human Resources contact at 212-526-2921 (5-2921).



LEHMAN BROTHERS

VICTORIA BERGER-GROSS
SENIOR VICE PRESIDENT
HUMAN RESOURCES

[redacted]

We are pleased to extend to you our offer of employment to join Lehman Brothers ("The Firm") as a [redacted] in the Global Infrastructure Services, Distributed Systems Department of the Information Technology Division. Your title of Vice President will be submitted for official approval by our Board of Directors at the next quarterly Board meeting following your start date. We expect your employment to commence on or about [redacted]

For the performance year ending November 30, 2000, your compensation will be as follows:

- Salary at the annualized rate of $, payable in biweekly installments in accordance with our customary payroll practice.
- A 2000 bonus in the amount of $, less applicable taxes and deductions, will be paid on or about January 29, 2001 when the Firm pays its annual bonuses.
- At the Firm's option, a portion of your total 2000 and future years' total compensation (combined base salary, bonus, and other compensation) will be payable in restricted stock units pursuant to the Firm's employee stock award program as then in effect.

You will also be eligible to participate in the standard employee benefits program, which will be explained to you during your orientation session.

The salary and bonus amounts set forth above will be paid at the times and in the amounts stated, except that they will not be payable if you have failed to obtain and/or maintain in good standing all applicable licenses and registrations or if, before the dates of scheduled payment, you have resigned, or have been terminated from the Firm because of misconduct, breach of Firm policies or rules, dishonesty, violation of laws or regulations, or substantial and continuing failure to perform employment duties or obligations satisfactorily. The salary and bonus amounts set forth above may be ratably reduced in the event of any authorized leave of absence during 2000. If you should die or become disabled before the bonus payment date, your base salary payments will end (subject to salary continuation in the event of disability), and you or your estate will be paid a pro-rata portion of the minimum bonus set forth above with respect to the year's which your death or disability occurs. Your compensation for all periods following performance year 2000 will be determined at the Firm's discretion.

65-03

Please understand that the terms and conditions of your employment by our Firm are governed by standard Firm policies. Among other things, this means that you must have and maintain in good standing all applicable licenses and registrations. This also means that this offer of employment is contingent on the successful completion of a background investigation, as well as on your satisfactorily meeting all pre-employment requirements including passing a pre-employment drug screen and producing documentation to verify your identity and eligibility to work in the United States. Please contact Melissa Bauer at (201) 524-2967, to schedule a mutually convenient time for your pre-employment processing.

While the above compensation commitments will be honored (absent the listed exceptions), this letter is not a contract of continuing employment. Your employment by the Firm is for no fixed term, and either you or the Firm may terminate the employment relationship at any time and for any reason.

This letter shall be binding upon the Firm and its successors and assigns.

If you agree with the terms outlined in this letter, please acknowledge the same by signing the enclosed copy and returning it to Dalva Durante in the ITD Human Resources Department.

..., this is an exciting time to be at Lehman Brothers. We are sure that you will find many opportunities to make a contribution to the Firm.

Sincerely,

Victoria Berger-Gross
SVP/Director, Human Resources
Information Technology Division

Accepted on this ___ day of ___

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Equity Award Program

Equity Award Program RSUs CSAs CEAs Stock Options Award Documents Glossary Personal Award Summary

Overview

The Equity Award Program is designed to provide members of Lehman Brothers employees with a direct ownership interest in the Firm over time. The program gives all of us an incentive to think and act like an owner every day and allows us to share in the Firm's financial success over time.

Equity Award Components

Employees receive a portion of their total compensation in the form of conditional equity awards. The form of equity award depends on the work location, as follows:

Location	Equity Award Type
United States	Restricted Stock Units ("RSUs")
Japan	Conditional Equity Awards ("CEAs")
Other Locations	Contingent Stock Awards ("CSAs")

In addition, in certain years, MDs and/or SVPs may also receive a portion of their total compensation in the form of stock options.

Equity Component

Grant Year	Equity Component	Employees Through VP Level	SVPs	MDs
2006-2007	RSUs/CSAs/CEAs	100%	100%	100%
2004-2005	RSUs/CSAs/CEAs	100%	75%	75%
	Stock Options	N/A	25%*	25%*
2003	RSUs/CEAs	100%	75%	75%
	Stock Options	N/A	25%	25%

*Stock Option Election for MDs and SVPs.

Amount of Total Compensation in Equity Awards

The value of your equity award is determined according to a schedule that specifies the amount granted at each level of total compensation. Under this schedule, the percentage of total compensation delivered in equity awards increases as total compensation rises.

Firm-Provided Discount

The Firm provides equity awards to employees at a significant discount to the market price. The number of RSUs/CSAs/CEAs awarded to eligible employees is based on the closing price of Lehman Brothers common stock on the date of grant, less the appropriate discount.

In years in which they are granted, the number of stock options awarded to SVPs and MDs is determined based on the Black-Scholes value of a 10-year Lehman Brothers option on the date of grant, less the appropriate discount.

The discount for each employee level is as follows:

Firm-Provided Discount

Grant Year	Employees Through VP Level	SVPs	MDs
2003-2007	25%	25%	30%

Refer to the Personal Award Summary page for details regarding your awards.

Refer to the Award Documents page to obtain copies of the plan documents governing awards granted from 2001 onwards. To obtain copies of the documents related to awards granted prior to 2001, please contact the Compensation Department at 212-526-8346 or at Compensation@Lehman.com.

This site is for information purposes only, and is not a contract. Your equity awards are governed exclusively by the applicable award agreement and related plan document and prospectus, which can be found on the Award Documents section of the site.

Quick Links

- Award Documents
- Frequently Asked Questions
- Printing Instructions

Contacts

Compensation Department
1271 Avenue of the Americas, 38th Floor
New York, NY 10020
Phone: 5-8346 (212-526-8346)
Fax: 212-526-8309
Email: Compensation@Lehman.com

CS-04

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RSUs

Equity Award Program . RSUs CSAs CEAs Stock Options Award Documents Glossary Personal Award Summary

Overview

An RSU represents the conditional right to receive one share of Lehman Brothers common stock five years after the grant date. You can consider the RSUs as shares of Lehman Brothers common stock that the Firm holds on your behalf and that you will receive five years later, provided you meet certain terms and conditions. The RSUs cannot be sold, traded, pledged, or transferred for that five year period.

For purposes of discussing the vesting schedule, you should consider your RSU award as having two components: the **principal portion** and the **discount portion**. The principal portion represents the number of RSUs awarded as part of your total compensation before the discount. The discount portion represents the additional number of RSUs awarded as a result of the applicable discount.

RSU Vesting Schedule

Grant Year	Portion of Award	Employees Through VP Level	SVPs	MDs
2003-2007	Principal	75% after 2 years	75% after 2 years	35% after 3 years 35% after 5 years
	Discount	25% after 5 years	25% after 5 years	30% after 5 years

Refer to the Termination Provisions page for an explanation of how your RSUs may be affected if you leave Lehman Brothers, including the circumstances under which you may forfeit your rights to your RSUs.

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- RSU Termination Provisions
- Frequently Asked Questions

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RSU Termination Provisions: 2006-2007 Equity Award Program

Equity Award Program RSUs CSAs CEAs Stock Options Award Documents Glossary Personal Award Summary

If your employment with the Firm ends, the disposition of your RSUs will be determined by when you leave, why you leave, and your conduct with respect to Lehman Brothers after you leave. Depending on these factors, you may forfeit your rights to some or all of your RSUs.

The provisions that apply to your specific award(s) are based on your level in the organization at the time of the award.

Note: the following termination provisions are applicable for the 2006 and 2007 awards only. For termination provisions relating to prior grant years, please refer to the applicable Award Documents.

2006-2007 RSU Termination Provisions for All Employees

Voluntary Termination (but not Full Career)	Participants will forfeit all unvested RSUs. Any vested RSUs will convert to shares of common stock and be issued on November 30th, 5 years after the grant date (the "Share Payment Date"), provided the participant does not engage in Detrimental Activity through that date and has not committed an act constituting Cause through the termination date.
Involuntary Termination (but not Full Career)	**Involuntary Termination without Cause:** Participants will become entitled to the Principal portion of their award, including the unvested Principal portion, provided the employee signs a Firm-standard release agreement. The Discount portion will be forfeited. Shares will be issued on the Share Payment Date, provided the participant does not engage in Detrimental Activity through that date. **Involuntary Termination with Cause:** Participants will forfeit 100% of the Principal and Discount portions of RSUs.
Full Career Termination	**A termination is "Full Career" if:** • The participant has at least 20 years of service; or • The participant is at least 45 years old and has at least 10 years of service; or • The participant is at least 50 years old and has at least 5 years of service. **Voluntary Termination:** Participants will become entitled to 100% of both the RSU Principal and Discount on the Share Payment Date, provided they do not engage in Competitive Activity through the earlier of the end of the fiscal quarter one year following the termination date or the Share Payment Date, and do not engage in Detrimental Activity through the Share Payment Date. RSUs will convert to shares of common stock and be issued on the Share Payment Date. **Involuntary Termination:** Participants will become entitled to 100% of both the RSU Principal and Discount on the Share Payment Date, provided they do not engage in Detrimental Activity through that date. RSUs will convert to shares of common stock and be issued on the Share Payment Date.
Termination due to Death or Disability	Entire Principal and Discount portions immediately vest, and shares are issued 30 days following the termination date.

Refer to the Award Documents page to obtain copies of the plan documents governing awards granted from 2001 onwards. To obtain copies of the documents related to awards granted prior to 2001, please contact the Compensation Department at 212-526-8346 or at Compensation@Lehman.com

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LEHMAN BROTHERS Lehman

Data as of August 31, 2008

10203201 Gregg Somma

AWARD UNITS¹ OUTSTANDING

Grant Date	Description	Grant Price	Grant Value²	Restriction Ends	Units Granted	Dividend Equivalents	Units Delivered	Units Vested³	Units Outstanding	Market Value at $0.046*
07/01/2008	July 2008 RSU	$20.9600	$6,900	11/30/2011	329.20	4.17	0.00	0.00	333.37	$15
12/07/2007	2007 Firmwide Principal	$47.6000	$25,875	11/30/2012	543.59	11.19	0.00	0.00	554.78	$26
12/07/2007	2007 Firmwide Discount	$47.6000	$8,625	11/30/2012	181.20	3.70	0.00	0.00	184.90	$9
12/08/2006	2006 Firmwide Principal	$57.7700	$23,934	11/30/2011	414.30	12.25	0.00	0.00	426.55	$20
12/08/2006	2006 Firmwide Discount	$57.7700	$7,979	11/30/2011	138.11	4.15	0.00	0.00	142.26	$7
11/30/2005	2005 Firmwide Principal	$47.2500	$14,063	11/30/2010	297.62	10.93	0.00	308.55	308.55	$14
11/30/2005	2005 Firmwide Discount	$47.2500	$4,687	11/30/2010	99.20	3.75	0.00	0.00	102.95	$5
12/09/2004	2004 Firmwide Principal	$32.1750	$11,625	11/30/2009	361.30	16.22	0.00	377.52	377.52	$17
12/09/2004	2004 Firmwide Discount	$32.1750	$3,875	11/30/2009	120.44	5.45	0.00	0.00	125.89	$6
12/10/2003	2003 Firmwide Principal	$26.7700	$9,750	11/30/2008	364.22	19.46	0.00	383.68	383.68	$18
12/10/2003	2003 Firmwide Discount	$26.7700	$3,250	11/30/2008	121.40	6.60	0.00	0.00	128.00	$6
Total			$120,563		2,970.58	97.87	0.00	1,069.75	3,068.45	$143
Total Equity										$143

* Market value refers to the value of the underlying Lehman Brothers Holdings Inc. shares at the indicated stock price. The intrinsic value of stock options is calculated by multiplying the number of options outstanding by the difference between the indicated stock price and the option exercise price. Please note that the current market price is based on a delayed 20 minutes feed from Reuters. (03:59 PM EST on January 22 2009)

¹ Award Units are those equity-based awards other than stock options, i.e. Restricted Stock Units, Conditional Equity Awards or Contingent Stock Awards, as applicable.
² Grant Value refers to the value of the underlying Lehman Brothers Holdings Inc. shares at the indicated grant price.
³ Units Vested refers to that portion of the award that has become vested and/or subject to limited conditions, as determined under the applicable plan documents.

Manager 1: Schwartz,Robert A.
Manager 2: Gatti,Nicholas J.

Lehman Brothers
2000 Total Compensation Statement
Personal & Confidential

Gregg Somma

2000 TOTAL COMPENSATION SUMMARY

Compensation Type	FY 2000 Totals
Paid Salary	$45,673
Bonus	$160,000
Total Compensation	**$205,673**

BONUS PAYMENT SCHEDULE

Bonus	$160,000	
Less RSUs	$(8,567)	
Less Advances	$(35,000)	
Net Bonus (Before Taxes)	**$116,433**	Bonus will be paid on or about January 30, 2001.

2000 EQUITY SUMMARY

	Equity Component	Market Price	Grant Price	Shares
2000 RSUs	$8,567	$49.563	$39.65	216.07

RSUs are subject to restrictions until November 30, 2005. They cannot be sold, traded or pledged for that five year period. All terms and conditions of the awards are subject to the controlling plan documents, including but not limited to your Restricted Stock Unit Awa Agreement, the Employee Incentive Plan and the Employee Incentive Plan Prospectus

You will receive additional documents on your Restricted Stock Unit Award as well as a statement outlining your complete award history in March of 2001.

2001 ANNUAL SALARY

Effective Fiscal Year 2001, your annual base salary will be as follows:

Current Annual Salary $125,000

All payments are contingent upon continued employment through the scheduled payment dates.

If you have any additional questions regarding your compensation or personnel data, please contact your divisional HR representative. If you have any questions regarding your stock award, please contact the Compensation Department at (212) 526-5126.

GS-05

Lehman Brothers

12/15/2001

2001 Total Compensation Statement

Employee : Somma,Gregg
Division : Information Technology
Hire Date : 7/17/2000

2001 TOTAL COMPENSATION SUMMARY

Compensation Type	FY 2001 Totals
Paid Salary	$125,000
Bonus	$115,000
Total Compensation	**$240,000**

BONUS PAYMENT SCHEDULE

Bonus	$115,000.00	
Less RSUs	$(11,999.99)	
Net Bonus (Before Taxes)	**$103,000.01**	Bonus will be paid on or about January 31, 2002

2001 EQUITY SUMMARY

	Equity Component	Market Price	Discount Price	Shares
Sep RSUs	$8,250.00	$46.64	$34.98	235.85
Dec RSUs	$3,749.99	$63.40	$47.55	78.86
Total RSUs	$11,999.99			314.71

RSUs are subject to restrictions until November 30, 2006. They cannot be sold, traded or pledged for that five year period.
All terms and conditions of the awards are subject to the controlling plan documents, including but not limited to your 2001 Restricted Stock Award Agreement, the Employee Incentive Plan and the Employee Incentive Plan Prospectus.

2002 ANNUAL SALARY

Effective Fiscal Year 2002, *your annual base salary will be as follows:*

Current Annual Salary	$125,000

Note: All bonus awards and equity awards are contingent on your being employed on the scheduled bonus award date (January 31 2002) and not having given or received notice of employment termination before that date. If you are not employed on January 31, 2002 or you have given or received notice of employment termination before that date, you will not be eligible to receive a bonus award or any equity award for fiscal year 2001.

If you have any additional questions regarding your compensation or personnel data, please contact your divisional HR representative. If you have any questions regarding your stock award, please contact the Compensation Department at (201) 524-4624.

10203201 REG

65-06

Lehman Brothers

2002 Total Compensation Statement

CONFIDENTIAL

Employee : Somma,Gregg
Division : Information Technology
Hire Date : July 17, 2000

Stock Program : VP
Employee Id : 10203201

COMPENSATION SUMMARY

Compensation Type	Current - 2002
Paid Salary	$125,000
Bonus	$80,000
Total Compensation	$205,000

EQUITY SUMMARY in USD

	Equity Component	Market Price	Discount Price	Shares
RSUs	$10,199.99	$54.42	$40.82	249.88

Your equity award was calculated based on a Total Compensation of $205,000.

RSUs are subject to restrictions until November 30, 2007. They cannot be sold, traded or pledged for that five year period.

All terms and conditions of the awards are subject to the controlling plan documents, including but not limited to your 2002 Restricted Stock Award Agreement, the Employee Incentive Plan and the Employee Incentive Plan Prospectus.

BONUS PAYMENT SCHEDULE

Bonus	$80,000	
Less RSUs	($10,200)	
Net Bonus (Before Taxes)	$69,800	Bonus will be paid on or about January 31, 2003

ANNUAL SALARY

Effective Fiscal Year 2003, your annual base salary will be as follows:

Current Annual Salary	$125,000

Note: All bonus awards and equity awards are contingent on your being employed on the scheduled bonus award date (on or about January 31, 2003) and not having given or received notice of employment termination before that date. If you are not employed on January 31, 2003 or you have given or received notice of employment termination before that date, you will not be eligible to receive a bonus award or any equity award for fiscal year 2002.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

16-Dec-02

GS-07

Lehman Brothers
2004 Total Compensation Statement

CONFIDENTIAL

Employee :	Somma,Gregg	Stock Program :	VP
Division :	Information Technology	Employee Id :	10203201
Hire Date :	July 17, 2000		

COMPENSATION

Compensation Type	Current - 2004
Paid Salary	$125,000
Bonus	$150,000
TOTAL COMPENSATION	**$275,000**

EQUITY SUMMARY in USD

	Equity Component	Market Price	Discount Price	Shares
RSUs	$15,499.99	$85.80	$64.35	240.87

Your equity award was calculated based on total compensation of $275,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation
All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to controlling plan documents, including the FY 2004 equity award agreements (expected to be finalized in early 2005), the Employee Incentive Plan and related Prospectus.

PAYMENT SCHEDULE

Bonus	$150,000	
Less RSUs	($15,500)	
Total Cash Payment (Before Taxes)	$134,500	Payable on or about January 31, 2005

ANNUAL SALARY
Effective Fiscal Year 2005, your annual base salary will be as follows:

Current Annual Salary	$125,000

Note: All bonus awards and equity awards are contingent on your being employed on the scheduled bonus award date (on or about January 31, 2005) and not having given or received notice of employment termination before that date. If you are not employed on January 31, 2005 or you have given or received notice of employment termination before that date, you will not be eligible to receive a bonus award (including any special awards) or any equity award for fiscal year 2004.
If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

13-Dec-04

GS-08

Lehman Brothers
2005 Total Compensation Statement

CONFIDENTIAL

Employee : Somma,Gregg
Division : Information Technology
Hire Date : July 17, 2000

Stock Program : VP
Employee Id : 10203201

COMPENSATION

Compensation Type	Current - 2005
Paid Salary	$125,000
Bonus	$180,000
TOTAL COMPENSATION	**$305,000**

EQUITY SUMMARY in USD

	Equity Component	Market Price	Discount Price	Shares
RSUs	$18,749.99	$126.00	$94.50	198.41

Your equity award was calculated based on total compensation of $305,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation.
All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to controlling plan documents, including the FY 2005 equity award agreements (expected to be finalized in early 2006), the Employee Incentive Plan and related Prospectus.

PAYMENT SCHEDULE

Bonus	$180,000	
Less RSUs	($18,750)	
Total Cash Payment (Before Taxes)	$161,250	Payable on or about January 31, 2006

ANNUAL SALARY
Effective Fiscal Year 2006, your annual base salary will be as follows:

Current Annual Salary	$125,000	
New Annual Salary	$150,000	Salary Adjustments will be included in the January 13, 2006 paycheck,
Salary Change	$25,000	retroactive to November 20, 2005.

Note: All bonus awards and equity awards are contingent on your being employed on the scheduled bonus award date (on or about January 31, 2006) and not having given or received notice of employment termination before that date.
If you are not employed on January 31, 2006, or you have received notice of employment termination before that date, you will not be eligible to receive a bonus award (including any special awards) or any equity award for fiscal year 2005.
If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212)526-8346.

12-Dec-05

GS-09

Lehman Brothers
2006 Total Compensation Statement
CONFIDENTIAL

Employee : Somma,Gregg
Division : Information Technology
Hire Date : 7/17/00

Employee ID : 10203201
Stock Program : VP

COMPENSATION

Compensation Type	Current - 2006
Paid Salary	$150,000
Bonus	$215,000
TOTAL COMPENSATION	$365,000

EQUITY SUMMARY in USD

	Equity Component	Market Price	Discount Price	Shares
RSUs	$31,912.50	$77.03	$57.77	552.41

Your equity award was calculated based on total compensation of $365,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation.

All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to controlling plan documents, including the FY 2006 equity award agreements (expected to be finalized in early 2007), the Employee Incentive Plan and related Prospectus.

PAYMENT SCHEDULE

Bonus	$215,000	
Less RSUs	($31,913)	
Total Cash Payment (Before Taxes)	$183,088	Payable on or about January 31, 2007

ANNUAL SALARY

Effective Fiscal Year 2007, your annual base salary will be as follows:

Current Annual Salary	$150,000	
New Annual Salary	$165,000	Salary Adjustments will be included in the January 26, 2007 paycheck,
Salary Change	$15,000	retroactive to November 19, 2006.

The above bonus (including equity awards and any special awards) is contingent on your remaining actively employed through the scheduled bonus award date (on or about January 31, 2007). If you are no longer actively employed on such date, or if you have received notice of employment termination, or are serving out any period of required notice of resignation through such date, you will not be eligible for a bonus or any portion of it.
If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212)526-8346.

11-Dec-06

GS-10

Lehman Brothers
2007 Total Compensation Statement

Employee : Somma,Gregg
Division : Information Technology
Hire Date : 7/17/00

Employee ID : 10203201
Stock Program : VP

COMPENSATION HISTORY

Compensation Type	Current - 2007
Paid Salary	$165,000
Bonus	$215,000
TOTAL COMPENSATION	$380,000

EQUITY SUMMARY in USD

	Equity Component	Market Price	Discount Price	Shares
RSUs	$34,500	$63.47	$47.60	724.79

Your equity award was calculated based on total compensation of $380,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation. All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to the controlling plan documents, including the FY 2007 equity award agreements (expected to be finalized in early 2008), the 2005 Stock Incentive Plan and related Prospectus.

PAYMENT SCHEDULE

Bonus	$215,000	
Less Total RSUs	($34,500)	
Total Cash Payment (Before Taxes)	$180,500	Payable on or about January 31, 2008

ANNUAL SALARY

Effective Fiscal Year 2008, your annual base salary will be as follows:

Current Annual Salary	$165,000

Your rights to the bonus payment and equity awards are subject to the terms and conditions of the Firm's bonus policy and the controlling equity award documents, as applicable.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

10-Dec-07

GS-11

Where Vision Gets Built™

LEHMAN BROTHERS

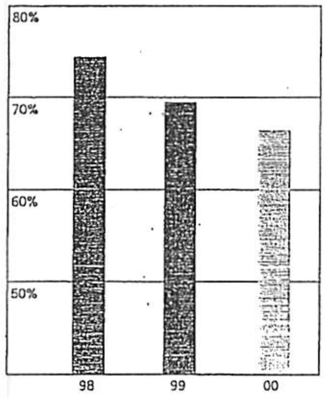
ANNUAL REPORT 2000

65-12

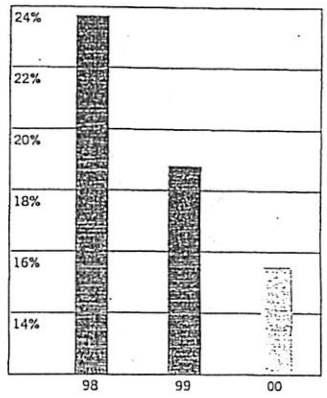
NON-INTEREST EXPENSES

(In millions)	Twelve months ended November 30 2000	1999	1998
Compensation and benefits	$3,931	$2,707	$2,086
Nonpersonnel	1,197	1,002	975
Total non-interest expenses	$5,128	$3,709	$3,061
Compensation and benefits/ Net revenues	51.0%	50.7%	50.7%
Nonpersonnel expenses/ Net revenues	15.5%	18.8%	23.7%

Non-Interest Expense
As a Percentage of Net Revenues



Nonpersonnel Expense
As a Percentage of Net Revenues



Non-interest expenses in 2000 totaled $5,128 million, up 38% over 1999's non-interest expenses of $3,709 million. The increase in non-interest expenses was more than offset by the 44% increase in net revenues, highlighting the Company's continued disciplined approach to expense management. This ongoing focus on expenses is a key attribute of the Company's strategic objective of increasing pretax operating margins. Nonpersonel expenses as a percentage of net revenues decreased from 18.8% in 1999 to 15.5% in fiscal 2000.

Compensation and benefits expense as a percentage of net revenues increased slightly to 51.0% compared to 50.7% in 1999. The increase reflects the Company's continued expansion of its investment banking, equities and European franchises as well as its investment in technology and e-commerce capabilities. Compensation and benefits expense includes the cost of salaries, incentive compensation and employee benefit plans as well as the amortization of deferred stock compensation awards.

INCOME TAXES Lehman Brothers 2000 income tax provision of $748 million represented a 29% effective tax rate. In 1999 and 1998, income tax provisions were $457 million and $316 million, respectively, resulting in effective tax rates of 28% in 1999 and 30% in 1998. The effective tax rate increased in 2000 due to an overall increase in the level of pretax income, which lessened the relative impact of certain tax preference items. The increase was partially offset by a decrease in the state and local effective tax rate. Additional information about the Company's income taxes can be found in Note 11 to the Consolidated Financial Statements.

LIQUIDITY, FUNDING AND CAPITAL RESOURCES

LIQUIDITY RISK MANAGEMENT Liquidity risk management is of critical importance to the Company, providing a framework which seeks to ensure that the Company maintains sufficient liquid financial resources to continually fund its balance sheet and meet all of its funding obligations in all market environments. The Company's liquidity framework has been structured so that even in a severe liquidity event the balance sheet does not have to be reduced purely for liquidity reasons (although we may choose to do so for risk reasons). This allows the Company to continue to maintain its customer franchise and debt ratings during a liquidity event.

The Company's liquidity management philosophy incorporates the following principles:

- Liquidity providers are credit and market sensitive. Consequently, firms must be in a state of constant liquidity readiness.
- Firms should not rely on asset sales to generate cash or believe that they can increase unsecured borrowings or funding efficiencies in a liquidity crisis.
- During a liquidity event, certain secured lenders may require higher quality collateral. Firms must therefore not overestimate the availability of secured financing, and must fully integrate their secured and unsecured funding strategies.
- A firm's legal entity structure may constrain liquidity. Regulatory requirements can restrict the flow of funds between regulated and unregulated group entities and this must be accounted for in liquidity planning.

Report

The Board of Directors and Stockholders of
Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

New York, New York
January 4, 2001

Consolidated Statement of Income

(In millions, except per share data)	2000	1999	1998
		Twelve months ended November 30	
REVENUES			
Principal transactions	$ 3,713	$ 2,341	$ 1,373
Investment banking	2,216	1,682	1,441
Commissions	944	651	513
Interest and dividends	19,440	14,251	16,542
Other	134	64	25
Total revenues	26,447	18,989	19,894
Interest expense	18,740	13,649	15,781
Net revenues	7,707	5,340	4,113
NON-INTEREST EXPENSES			
Compensation and benefits	3,931	2,707	2,086
Technology and communications	341	327	316
Brokerage and clearance	264	232	239
Professional fees	184	115	109
Business development	182	122	109
Occupancy	135	116	113
Other	91	90	89
Total non-interest expenses	5,128	3,709	3,061
Income before taxes and dividends on trust preferred securities	2,579	1,631	1,052
Provision for income taxes	748	457	316
Dividends on trust preferred securities	56	42	
Net income	$ 1,775	$ 1,132	$ 736
Net income applicable to common stock	$ 1,679	$ 1,037	$ 649
Earnings per common share			
Basic	$ 6.89	$ 4.27	$ 2.68
Diluted	$ 6.38	$ 4.08	$ 2.60

See Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Condition

(In millions)	2000	November 30 1999
ASSETS		
Cash and cash equivalents	$ 5,160	$ 5,186
Cash and securities segregated and on deposit for regulatory and other purposes	2,434	1,989
Securities and other financial instruments owned:		
Governments and agencies	27,381	29,959
Mortgages and mortgage-backed	24,670	22,643
Corporate equities	24,042	12,790
Corporate debt and other	16,098	11,096
Derivatives and other contractual agreements	9,583	10,306
Certificates of deposit and other money market instruments	3,433	2,265
	105,207	89,059
Collateralized short-term agreements:		
Securities purchased under agreements to resell	81,242	62,222
Securities borrowed	17,618	19,397
Receivables:		
Brokers, dealers and clearing organizations	1,662	1,674
Customers	7,585	9,332
Others	1,135	1,354
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $855 in 2000 and $903 in 1999)	671	485
Other assets	1,826	1,408
Excess of cost over fair value of net assets acquired (net of accumulated amortization of $138 in 2000 and $129 in 1999)	180	138
Total assets	$224,720	$192,244

See Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Condition (continued)

(In millions, except share data)	November 30 2000	1999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Commercial paper and short-term debt	$ 5,800	$ 5,476
Securities and other financial instruments sold but not yet purchased:		
Governments and agencies	14,998	22,396
Derivatives and other contractual agreements	8,568	9,582
Corporate equities	6,623	12,344
Corporate debt and other	5,096	2,288
	35,285	46,610
Collateralized short-term financing:		
Securities sold under agreements to repurchase	110,225	81,083
Securities loaned	7,242	4,568
Payables:		
Brokers, dealers and clearing organizations	1,922	1,184
Customers	11,637	10,971
Accrued liabilities and other payables	8,735	4,668
Long-term debt:		
Senior notes	32,106	27,375
Subordinated indebtedness	3,127	3,316
Total liabilities	216,079	185,251
Commitments and contingencies		
Preferred securities subject to mandatory redemption	860	710
STOCKHOLDERS' EQUITY		
Preferred stock	700	688
Common stock, $0.10 par value; 300,000,000 shares authorized;		
Shares issued: 251,629,126 in 2000 and 245,238,920 in 1999;		
Shares outstanding: 236,395,332 in 2000 and 239,825,620 in 1999	25	25
Additional paid-in capital	3,589	3,374
Accumulated other comprehensive income (net of tax)	(8)	(2)
Retained earnings	3,713	2,094
Other stockholders' equity, net	597	254
Common stock in treasury, at cost: 15,233,794 shares in 2000 and 5,413,300 shares in 1999	(835)	(150)
Total stockholders' equity	7,781	6,283
Total liabilities and stockholders' equity	$224,720	$192,244

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Stockholders' Equity

(In millions)	Twelve months ended November 30 2000	1999	1998
PREFERRED STOCK			
5% Cumulative Convertible Voting, Series A:			
Beginning balance		$ 1	$ 1
Series A exchanged for Series B		(1)	
Ending balance			1
5% Cumulative Convertible Voting, Series B:			
Beginning balance	$ 238	457	507
Series A exchanged for Series B		1	
Shares subject to redemption	(150)		
Shares repurchased	(88)	(220)	(50)
Ending balance		238	457
5.94% Cumulative, Series C:			
Beginning balance	250	250	
Shares issued			250
Ending balance	250	250	250
5.67% Cumulative, Series D:			
Beginning balance	200	200	
Shares issued			200
Ending balance	200	200	200
7.115% Cumulative, Series E:			
Beginning balance			
Shares issued	250		
Ending Balance	250		
Redeemable Voting:			
Beginning and ending balance			
Total Preferred Stock, ending balance	700	688	908
COMMON STOCK(1)			
Beginning balance	25	25	25
Ending balance	25	25	25
ADDITIONAL PAID-IN CAPITAL(1)			
Beginning balance	3,374	3,521	3,423
RSUs exchanged for Common Stock	(54)	(63)	
Employee stock-based awards	101	9	37
Shares issued to RSU Trust	(210)	(181)	
Tax benefits from the issuance of stock-based awards	373	90	59
Other, net	5	(2)	2
Ending balance	$3,589	$3,374	$3,521

(1) Amounts have been retroactively adjusted to give effect for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on October 20, 2000.

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Stockholders' Equity (continued)

(in millions)	Twelve months ended November 30		
	2000	1999	1998
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Beginning balance	$ (2)	$ 15	$ 12
Translation adjustment, net[2]	(6)	(17)	3
Ending balance	(8)	(2)	15
RETAINED EARNINGS			
Beginning balance	2,094	1,105	498
Net income	1,775	1,132	736
Dividends declared:			
5% Cumulative Convertible Voting Series A and B Preferred Stock	(9)	(20)	(25)
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(8)
5.67% Cumulative, Series D Preferred Stock	(11)	(10)	(4)
7.115% Cumulative, Series E Preferred Stock	(12)		
Redeemable Voting Preferred Stock	(50)	(50)	(50)
Common Stock	(59)	(48)	(37)
Other			(5)
Ending balance	3,713	2,094	1,105
COMMON STOCK ISSUABLE			
Beginning balance	1,768	1,318	911
RSUs exchanged for Common Stock	(247)	(83)	(10)
Deferred stock awards granted	1,003	533	417
Ending balance	2,524	1,768	1,318
COMMON STOCK HELD IN RSU TRUST			
Beginning balance	(717)	(422)	(325)
Shares issued to RSU Trust	(231)	(441)	(107)
RSUs exchanged for Common Stock	301	146	10
Ending balance	(647)	(717)	(422)
DEFERRED STOCK COMPENSATION			
Beginning balance	(797)	(627)	(431)
Deferred stock awards granted	(1,003)	(533)	(417)
Amortization of deferred compensation, net	520	363	221
Ending balance	(1,280)	(797)	(627)
COMMON STOCK IN TREASURY, AT COST			
Beginning balance	(150)	(430)	(98)
Treasury stock purchased	(1,203)	(353)	(469)
Employee stock-based awards	77	11	30
Shares issued to RSU Trust	441	622	107
Ending balance	(835)	(150)	(430)
Total stockholders' equity	$7,781	$6,283	$5,413

(2) Net of income taxes of $(8) in 2000, $(11) in 1999, and $2 in 1998.

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(in millions)	2000	1999	1998
		Twelve months ended November 30	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 1,775	$ 1,132	$ 736
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	102	88	91
Deferred tax provision (benefit)	(169)	(145)	(284)
Amortization of deferred stock compensation	520	363	221
Other adjustments	65	(129)	80
Net change in:			
Cash and securities segregated and on deposit	(445)	(806)	(34)
Securities and other financial instruments owned	(16,148)	(12,059)	(138)
Securities borrowed	1,779	(3,056)	(2,195)
Receivables from brokers, dealers and clearing organizations	12	624	(105)
Receivables from customers	1,747	(1,574)	1,347
Securities and other financial instruments sold but not yet purchased	(11,325)	17,807	(1,277)
Securities loaned	2,674	1,403	(4,681)
Payables to brokers, dealers and clearing organizations	738	(138)	(833)
Payables to customers	666	1,768	(2,499)
Accrued liabilities and other payables	4,041	377	(152)
Other operating assets and liabilities, net	(765)	686	(279)
Net cash provided by (used in) operating activities	(14,733)	6,341	(10,002)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior notes	14,225	9,753	11,091
Principal payments of senior notes	(8,353)	(6,037)	(4,298)
Proceeds from issuance of subordinated indebtedness		200	600
Principal payments of subordinated indebtedness	(192)	(370)	(356)
Net proceeds from (payments for) commercial paper and short-term debt	324	(1,181)	(1,161)
Resale agreements net of repurchase agreements	10,122	(6,488)	5,751
Payments for repurchases of preferred stock	(88)	(220)	(50)
Payments for treasury stock purchases	(1,203)	(353)	(469)
Dividends paid	(149)	(139)	(122)
Issuances of common stock	99	8	61
Issuance of preferred stock, net of issuance costs	250		444
Issuance of trust preferred securities, net of issuance costs		690	
Net cash provided by (used in) financing activities	15,035	(4,137)	11,491
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and leasehold improvements, net	(287)	(73)	(119)
Acquisition, net of cash acquired	(41)		
Net cash used in investing activities	(328)	(73)	(119)
Net change in cash and cash equivalents	(26)	2,131	1,370
Cash and cash equivalents, beginning of period	5,186	3,055	1,685
Cash and cash equivalents, end of period	$ 5,160	$ 5,186	$ 3,055

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (in millions)

Interest paid totaled $18,500 in 2000, $13,513 in 1999 and $15,473 in 1998.

Income taxes paid totaled $473 in 2000, $103 in 1999 and $541 in 1998.

See Notes to Consolidated Financial Statements.

SERIES D On July 21, 1998, Holdings issued 4,000,000 Depository Shares, each representing 1/100th of a share of 5.67% Cumulative Preferred Stock, Series D ("Series D Preferred Stock"), $1.00 par value. These shares have a redemption price of $5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series D Preferred Stock beginning on August 31, 2008. The $200 million redemption value of the shares outstanding at November 30, 2000 is classified on the Company's Consolidated Statement of Financial Condition as a component of Preferred stock.

SERIES E On March 28, 2000, Holdings issued 5,000,000 Depository Shares, each representing 1/100th of a share of Fixed/Adjustable Rate Cumulative Preferred Stock, Series E ("Series E Preferred Stock"), $1.00 par value. The initial cumulative dividend rate on the Series E Preferred Stock is 7.115% per annum through May 31, 2005; thereafter the rate will be the higher of either the three-month U.S. Treasury Bill rate, the 10-year Treasury constant maturity rate or the 30-year U.S. Treasury constant maturity rate, in each case plus 1.15%, but in any event not less than 7.615% nor greater than 13.615%. These shares have a redemption price of $5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series E Preferred Stock beginning on May 31, 2005. The $250 million redemption value of the shares outstanding at November 30, 2000 is classified on the Company's Consolidated Statement of Financial Condition as a component of Preferred stock.

REDEEMABLE VOTING In 1994, Holdings issued the Redeemable Voting Preferred Stock to American Express and Nippon Life for $1,000. The holders of the Redeemable Voting Preferred Stock are entitled to receive annual dividends through May 31, 2002 in an amount equal to 50% of the amount, if any, by which the Company's net income for the preceding year exceeds $400 million, up to a maximum of $50 million, prorated in the case of the last dividend period, which runs from December 1, 2001 to May 31, 2002. For the years ended November 30, 2000 and 1999, the Company's net income of $1,775 million and $1,132 million, respectively, resulted in the recognition of dividends in each year in the amount of $50 million on the Redeemable Voting Preferred Stock.

Holdings may not redeem shares of the Redeemable Preferred Stock prior to the final dividend payment. However, in the event of a change of control of the Company, holders of the Redeemable Preferred Stock will have the right to require Holdings to redeem all of the stock for an aggregate redemption price equal to $50 million if such change of control occurs prior to November 30, 2001. If a change of control is not approved by a majority of Holdings' Board of Directors, the funds for redemption must be raised by an offering of Holdings' equity securities which are not redeemable. The Redeemable Preferred Stock is not convertible into common stock.

NOTE 6 / COMMON STOCK

On September 20, 2000, Lehman Brothers' Board of Directors declared a two-for-one common stock split, to be effected in the form of a 100% stock dividend, which became effective on October 20, 2000. The par value of the common stock remained at $0.10 per share. Accordingly, a transfer from paid-in capital to common stock of $12.5 million was made to preserve the par value of the post-split shares. All share and per share amounts have been restated for the effect of the split.

Changes in shares of Holdings' common stock (the "Common Stock") outstanding are as follows:

			November 30
	2000	1999	1998
Shares outstanding, beginning of period	239,825,620	227,315,754	233,224,148
Exercise of stock options and other share issuances	10,015,048	1,925,642	6,259,766
Treasury stock purchases	(25,245,336)	(12,415,776)	(17,168,160)
Issuances of shares to the RSU Trust	11,800,000	23,000,000	5,000,000
Shares outstanding, end of period	236,395,332	239,825,620	227,315,754

The Company had reserved for issuance approximately 2.4 million shares of Common Stock for conversion of the Convertible Voting Preferred.

During the years ended November 30, 2000, 1999 and 1998, the Company repurchased or acquired shares of its Common Stock at an aggregate cost of approximately $1,203 million, $353 million and $469 million, respectively. These shares were acquired in the open market and from employees who had tendered mature shares to pay for the exercise cost of stock options and related tax withholding obligations. These shares are being reserved for future issuances under employee stock-based compensation plans.

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") in order to provide common stock voting rights to employees who hold outstanding restricted stock units and to encourage employees to think and act like owners. The RSU Trust was initially funded in 1997 with a total of 32.0 million shares consisting of 10.0 million treasury shares for restricted stock unit ("RSU") awards under the Employee Incentive Plan and 22.0 million new issue shares of Common Stock for RSU awards under the 1994 Management Ownership Plan. In 2000, 1999 and 1998, 11.8 million, 23.0 million and 5.0 million treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2000, approximately 42.4 million shares were held in the RSU Trust with a total value of approximately $647 million. For accounting purposes, these shares are valued at weighted-average grant prices.

Shares transferred to the RSU Trust do not impact the total number of shares used in the computation of earnings per common share because the Company considers the RSUs as common stock equivalents for purposes of this computation. Accordingly, the establishment of the RSU Trust has had no effect on the total equity, net income or earnings per share of the Company.

NOTE 7 / INCENTIVE PLANS

EMPLOYEE STOCK PURCHASE PLAN The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of $25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. As of November 30, 2000 and 1999, 5.2 million shares and 4.8 million shares, respectively, of Common Stock had been purchased by eligible employees through the ESPP.

[illegible] The 1994 Management Replacement Plan (the "Replacement Plan") provided awards similar to the American Express common shares granted to Company employees which were canceled as of the date of the spin-off from American Express. Through November 30, 2000, a total of 3.9 million awards had been granted under the Replacement Plan, including both stock options and restricted stock; 0.4 million were outstanding at November 30, 2000. No future awards will be granted under this plan.

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2000, RSU and stock option awards with respect to 31.3 million shares of Common Stock have been made under the 1994 Plan of which 2.9 million are outstanding and 28.4 million have been converted to freely transferable Common Stock. The Company will utilize the remaining authorization of 2.0 million shares to satisfy dividend reinvestment requirements for outstanding awards and to fund the annual RSU awards for the Company's non-employee directors.

1996 MANAGEMENT OWNERSHIP PLAN During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2000, RSU, PSU and stock option awards with respect to 29.7 million shares of Common Stock have been made under the 1996 Plan of which 21.5 million are outstanding and 8.2 million have been converted to freely transferable Common Stock.

EMPLOYEE INCENTIVE PLAN The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization for up to 156.0 million shares of Common Stock which may be subject to awards. At November 30, 2000, awards with respect to 125.9 million shares of Common Stock have been made under the EIP of which 112.5 million are outstanding and 13.4 million have been converted to freely transferable Common Stock. Approximately 72.5 million of the outstanding awards consist of RSUs and PSUs which have vesting and transfer restrictions extending through the year 2006.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders of
Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

New York, New York
January 4, 2002

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CONSOLIDATED STATEMENT OF INCOME

In millions, except per share data *Twelve months ended November 30*	2001	2000	1999
REVENUES			
Principal transactions	$ 2,779	$ 3,713	$ 2,341
Investment banking	2,000	2,216	1,682
Commissions	1,091	944	651
Interest and dividends	16,470	19,440	14,251
Other	52	134	64
Total revenues	22,392	26,447	18,989
Interest expense	15,656	18,740	13,649
Net revenues	6,736	7,707	5,340
NON-INTEREST EXPENSES			
Compensation and benefits	3,437	3,931	2,707
Technology and communications	501	341	327
Brokerage and clearance	308	264	232
Occupancy	198	135	116
Business development	183	182	122
Professional fees	152	184	115
Other	82	91	90
Special charge	127	–	–
Total non-interest expenses	4,988	5,128	3,709
Income before taxes and dividends on trust preferred securities	1,748	2,579	1,631
Provision for income taxes	437	748	457
Dividends on trust preferred securities	56	56	42
Net income	$ 1,255	$ 1,775	$ 1,132
Net income applicable to common stock	$ 1,161	$ 1,679	$ 1,037
Earnings per common share			
Basic	$ 4.77	$ 6.89	$ 4.27
Diluted	$ 4.38	$ 6.38	$ 4.08

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

In millions *November 30*	2001	2000
ASSETS		
Cash and cash equivalents	$ 2,561	$ 5,160
Cash and securities segregated and on deposit for regulatory and other purposes	3,289	2,434
Securities and other financial instruments owned:		
Mortgages and mortgage-backed	33,210	24,670
Governments and agencies	24,101	27,381
Derivatives and other contractual agreements	11,555	9,583
Corporate debt and other	10,918	16,098
Corporate equities	8,302	24,042
Certificates of deposit and other money market instruments	2,759	3,433
Subtotal	90,845	105,207
Securities owned pledged as collateral	28,517	–
	119,362	105,207
Collateralized short-term agreements:		
Securities purchased under agreements to resell	83,278	81,242
Securities borrowed	17,994	17,618
Receivables:		
Brokers, dealers and clearing organizations	3,455	1,662
Customers	12,123	7,585
Others	1,479	1,135
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $424 in 2001 and $855 in 2000)	1,495	671
Other assets	2,613	1,826
Excess of cost over fair value of net assets acquired (net of accumulated amortization of $151 in 2001 and $138 in 2000)	167	180
Total assets	$247,816	$224,720

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION *continued*

In millions, except per share data *November 30*	2001	2000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Commercial paper and short-term debt	$ 4,865	$ 5,800
Securities and other financial instruments sold but not yet purchased:		
Governments and agencies	25,547	14,998
Derivatives and other contractual agreements	10,324	8,568
Corporate equities	8,977	6,623
Corporate debt and other	6,482	5,096
	51,330	35,285
Collateralized short-term financing:		
Securities sold under agreements to repurchase	105,079	110,225
Securities loaned	12,541	7,242
Payables:		
Brokers, dealers and clearing organizations	2,805	1,922
Customers	13,831	11,637
Accrued liabilities and other payables	9,895	8,735
Long-term debt:		
Senior notes	35,373	32,106
Subordinated indebtedness	2,928	3,127
Total liabilities	238,647	216,079
Commitments and contingencies		
Preferred securities subject to mandatory redemption	710	860
STOCKHOLDERS' EQUITY		
Preferred stock	700	700
Common stock, $0.10 par value;		
Shares authorized: 600,000,000 in 2001 and 300,000,000 in 2000;		
Shares issued: 256,178,907 in 2001 and 251,629,126 in 2000;		
Shares outstanding: 237,534,091 in 2001 and 236,395,332 in 2000	25	25
Additional paid-in capital	3,562	3,589
Accumulated other comprehensive income (net of tax)	(10)	(8)
Retained earnings	4,798	3,713
Other stockholders' equity, net	746	597
Common stock in treasury, at cost: 18,644,816 shares in 2001 and 15,233,794 shares in 2000	(1,362)	(835)
Total stockholders' equity	8,459	7,781
Total liabilities and stockholders' equity	$247,816	$224,720

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

In millions *Twelve months ended November 30*	2001	2000	1999
PREFERRED STOCK			
5% Cumulative Convertible Voting, Series A:			
Beginning balance			$ 1
Series A exchanged for Series B			(1)
Ending balance			
5% Cumulative Convertible Voting, Series B:			
Beginning balance		$ 238	457
Series A exchanged for Series B			1
Shares subject to redemption		(150)	
Shares repurchased		(88)	(220)
Ending balance			238
5.94% Cumulative, Series C:			
Beginning balance	$ 250	250	250
Shares issued			
Ending balance	250	250	250
5.67% Cumulative, Series D:			
Beginning balance	200	200	200
Shares issued			
Ending balance	200	200	200
7.115% Cumulative, Series E:			
Beginning balance	250		
Shares issued		250	
Ending balance	250	250	
Redeemable Voting:			
Beginning and ending balance			
Total Preferred Stock, ending balance	700	700	688
COMMON STOCK(1)	25	25	25
ADDITIONAL PAID-IN CAPITAL(1)			
Beginning balance	3,589	3,374	3,521
RSUs exchanged for Common Stock	(13)	(54)	(63)
Employee stock-based awards	53	101	9
Shares issued to RSU Trust	(628)	(210)	(181)
Tax benefits from the issuance of stock-based awards	549	373	90
Other, net	12	5	(2)
Ending balance	$3,562	$3,589	$3,374

(1) Amounts have been retroactively adjusted to give effect for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on October 20, 2000.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY *continued*

In millions *Twelve months ended November 30*	2001	2000	1999
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Beginning balance	$ (8)	$ (2)	$ 15
Translation adjustment, net[2]	(2)	(6)	(17)
Ending balance	(10)	(8)	(2)
RETAINED EARNINGS			
Beginning balance	3,713	2,094	1,105
Net income	1,255	1,775	1,132
Dividends declared:			
5% Cumulative Convertible Voting Series A and B Preferred Stock	(1)	(9)	(20)
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(10)
7.115% Cumulative, Series E Preferred Stock	(18)	(12)	–
Redeemable Voting Preferred Stock	(50)	(50)	(50)
Common Stock	(75)	(59)	(48)
Ending balance	4,798	3,713	2,094
COMMON STOCK ISSUABLE			
Beginning balance	2,524	1,768	1,318
RSUs exchanged for Common Stock	(215)	(247)	(83)
Deferred stock awards granted	624	1,003	533
Ending balance	2,933	2,524	1,768
COMMON STOCK HELD IN RSU TRUST			
Beginning balance	(647)	(717)	(422)
Shares issued to RSU Trust	(403)	(231)	(441)
RSUs exchanged for Common Stock	223	301	146
Ending balance	(827)	(647)	(717)
DEFERRED STOCK COMPENSATION			
Beginning balance	(1,280)	(797)	(627)
Deferred stock awards granted	(624)	(1,003)	(533)
Amortization of deferred compensation, net	544	520	363
Ending balance	(1,360)	(1,280)	(797)
COMMON STOCK IN TREASURY, AT COST			
Beginning balance	(835)	(150)	(430)
Treasury stock purchased	(1,676)	(1,203)	(353)
RSUs exchanged for Common Stock	5	–	–
Shares issued for preferred stock conversion	44	–	–
Employee stock-based awards	69	77	11
Shares issued to RSU Trust	1,031	441	622
Ending balance	(1,362)	(835)	(150)
Total stockholders' equity	$ 8,459	$ 7,781	$ 6,283

(2) Net of income taxes of $(1) in 2001, $(8) in 2000 and $(11) in 1999.

See Notes to Consolidated Financial Statements.

Common Stock

In 2000, Lehman Brothers' Board of Directors declared a two-for-one common split, effected in the form of a 100% stock dividend. All share and per share data presented in this Annual Report to Stockholders reflect the effect of the split.

In April 2001, the Company's shareholders approved the adoption of an amendment of the Company's Restated Certificate of Incorporation to increase the aggregate number of authorized shares of common stock from 300 million to 600 million.

Changes in shares of Holdings' common stock outstanding are as follows:

Common Stock

November 30	2001	2000	1999
Shares outstanding, beginning of period	236,395,332	239,825,620	227,315,754
Exercise of stock options and other share issuances	8,369,721	10,015,048	1,925,642
Treasury stock purchases	(23,230,962)	(25,245,336)	(12,415,776)
Issuances of shares to the RSU Trust	16,000,000	11,800,000	23,000,000
Shares outstanding, end of period	237,534,091	236,395,332	239,825,620

During the years ended November 30, 2001, 2000 and 1999, the Company repurchased or acquired shares of its Common Stock at an aggregate cost of approximately $1,676 million, $1,203 million and $353 million, respectively. These shares were acquired in the open market and from employees who had tendered mature shares to pay for the exercise cost of stock options and related tax withholding obligations. These shares are being reserved for future issuances under employee stock-based compensation plans.

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") in order to provide common stock voting rights to employees who hold outstanding restricted stock units and to encourage employees to think and act like owners. The RSU Trust was initially funded in 1997 with a total of 32.0 million shares consisting of 10.0 million treasury shares for restricted stock unit ("RSU") awards under the Employee Incentive Plan and 22.0 million new issue shares of Common Stock for RSU awards under the 1994 Management Ownership Plan. In 2001, 2000 and 1999, 16.0 million, 11.8 million and 23.0 million Treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2001, approximately 45.7 million shares were held in the RSU Trust with a total value of approximately $827 million. For accounting purposes, these shares are valued at weighted-average grant prices.

Shares transferred to the RSU Trust do not impact the total number of shares used in the computation of earnings per common share because the Company considers the RSUs as common stock equivalents for purposes of this computation. Accordingly, the establishment of the RSU Trust has had no effect on the total equity, net income or earnings per share of the Company.

8 Incentive Plans

EMPLOYEE STOCK PURCHASE PLAN The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of $25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. As of November 30, 2001 and 2000, 5.5 million shares and 5.2 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP.

1994 INCENTIVE PLANS The 1994 Management Replacement Plan (the "Replacement Plan") provided awards similar to the American Express common shares granted to Company employees which were canceled as of the date of the spin-off from American Express. Through November 30, 2001, a total of 3.9 million awards had been granted under the Replacement Plan, including both stock options and restricted stock; 0.1 million shares were outstanding at November 30, 2001. No future awards will be granted under this plan.

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2001, RSU, PSU and stock option awards with respect to 31.1 million shares of Common Stock have been made under the 1994 Plan of which 1.5 million are outstanding and 29.6 million have been converted to freely transferable Common Stock. The Company will utilize the remaining authorization of 2.2 million shares to satisfy dividend reinvestment requirements for outstanding awards and to fund the annual RSU awards for the Company's non-employee directors.

1996 MANAGEMENT OWNERSHIP PLAN During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2001, RSU, PSU and stock option awards with respect to 31.4 million shares of Common Stock have been made under the 1996 Plan of which 18.9 million are outstanding and 12.5 million have been converted to freely transferable Common Stock.

EMPLOYEE INCENTIVE PLAN The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors for the issuance of up to 196.0 million shares of Common Stock which may be subject to awards. At November 30, 2001, awards with respect to 157.8 million shares of Common Stock have been made under the EIP of which 124.3 million are outstanding and 33.5 million have been converted to freely transferable Common Stock.

INVESTMENT BANKING

Investment Banking revenues were $1,771 million for 2002 as compared to $2,000 million for 2001 and $2,216 million in 2000. Investment banking revenues result mainly from fees earned by the Company for underwriting public and private offerings of fixed income and equity securities, and advising clients on M&A activities and other services. In 2002, Investment banking revenues decreased 11% from 2001, reflecting the significant market weakness in equity underwriting and M&A advisory activities, partially offset by improvements in the Company's market share for completed M&A transactions and underwriting of fixed income and certain equity products. In 2001, Investment banking revenues decreased by 10% driven by industry wide decreases in M&A and equity origination activities. (See page 40 for a detailed discussion of the Company's Investment Banking segment.)

technology and communication, and brokerage and clearance expenses, partially offset by decreases in discretionary spending items. Occupancy expenses increased to $287 million in 2002 from $198 million in 2001, principally attributable to additional space to accommodate the growth in headcount resulting from the Company's expansion during the past several years as well as the increased cost of our new corporate headquarters. Technology and communication expenses were $552 million in 2002 compared to $501 million in 2001. This increase reflects additional spending to enhance the Company's capital markets trading platforms and technology infrastructure. Brokerage and clearance expenses increased by 7% due to higher volumes in certain fixed income structured products. Business development and professional fees decreased by 20% and 15%, respectively, from 2001, due to lower discretionary spending in response to the current market environment. Nonpersonnel

Non-Interest Expenses

In millions *Twelve months ended November 30*	*2002*	*2001*	*2000*
Compensation and benefits	$ 3,139	$ 3,437	$ 3,931
Nonpersonnel	1,517	1,424	1,197
September 11th related (recoveries)/expenses, net	(108)	127	–
Other real estate reconfiguration charge	128	–	–
Regulatory settlement	80	–	–
Total non-interest expenses	$ 4,756	$ 4,988	$ 5,128
Compensation and benefits/Net revenues	51.0%	51.0%	51.0%

Non-interest expenses were $4,756 million for fiscal 2002, down 5% from $4,988 million in fiscal 2001 and down 3% in fiscal 2001 from $5,128 million in fiscal 2000. Total non-interest expenses in fiscal 2002 included a net gain of $108 million associated with September 11th related costs and insurance settlement proceeds, a charge of $128 million for certain other real estate reconfiguration costs and a charge of $80 million resulting from the Company's regulatory settlement associated with allegations of research analyst conflicts of interest. Fiscal 2001 total non-interest expenses included a charge of $127 million related to September 11th insurance recoveries and expenses, net. (Additional information about these charges can be found in Notes 2, 3 and 4 to the Consolidated Financial Statements.)

Nonpersonnel expenses were $1,517 million in 2002 compared to $1,424 million in 2001. The increase in nonpersonnel expenses is principally attributable to increases in occupancy, expenses increased 19% in 2001 from 2000 mainly attributable to increases in investments in technology and communications, occupancy expenses to accommodate headcount growth and increased brokerage and clearance expenses.

Compensation and benefits expenses were $3,139 million in 2002, $3,437 million in 2001 and $3,931 million in 2000. Compensation and benefits expense as a percentage of net revenues in 2002 remained at 51%, consistent with fiscal 2001 and 2000. Compensation and benefits expense includes the cost of salaries, incentive compensation and employee benefit plans as well as the amortization of deferred stock compensation awards. Lower levels of revenues in 2002 resulted in lower variable compensation expenses, which decreased by 21% from 2001. Fixed compensation, consisting primarily of salaries and benefits, increased 6% in 2002 from 2001, due to an increase in pension expense, related to lower asset values and projected returns, as

GS-14

well as higher severance costs related to headcount reductions made during the fourth quarter of 2002. Compensation and benefits expenses decreased 13% in 2001 from 2000 consistent with the decrease in the Company's revenues.

Net pension expense/(income) was $26 million, $(32) million and $(34) million in 2002, 2001 and 2000, respectively. The Company views its pension cost as a component of compensation expense and, in keeping with its expense management discipline, has maintained total compensation at 51% of net revenues over the past several years.

Nonpersonnel and compensation expenses combined were $4,656 million, $4,861 million and $5,128 million in 2002, 2001 and 2000, respectively. The overall decrease year-over-year is principally associated with the decrease in net revenues coupled with the Company's continued disciplined approach to expense management.

INCOME TAXES

The Company recorded an income tax provision of $368 million, $437 million, and $748 million for 2002, 2001, and 2000, respectively. These provisions resulted in effective tax rates of 26.3%, 25.0%, and 29.0%, respectively.

The increase in the effective tax rate in 2002 from 2001 was principally due to a less favorable mix of geographic earnings, partially offset by a greater impact of permanent differences, including tax-exempt income. The decrease in the effective tax rate in 2001 from 2000 was primarily due to a greater impact of permanent differences, resulting from a decrease in the level of pre-tax income, an increase in tax-exempt income, and a higher level of income from foreign operations.

Additional information about the Company's income taxes can be found in Note 14 to the Consolidated Financial Statements.

Segments

The Company is segregated into three business segments (each of which is described below): Investment Banking, Capital Markets and Client Services. Each segment represents a group of activities and products with similar characteristics. These business activities result in revenues from both institutional and high-net-worth retail clients, which are recognized across all revenue categories contained in the Company's Consolidated Statement of Income. (Net revenues also contain certain internal allocations, including funding costs, which are centrally managed.)

Segment Results

In millions *Twelve months ended November 30, 2002*	*Investment Banking*	*Capital Markets*	*Client Services*	*Total*
Principal Transactions	$ –	$ 1,474	$ 477	$ 1,951
Interest and Dividends	–	11,691	37	11,728
Investment Banking	1,731	–	40	1,771
Commissions	–	1,059	227	1,286
Other	–	1	44	45
Total Revenues	1,731	14,225	825	16,781
Interest Expense	–	10,605	21	10,626
Net Revenues	1,731	3,620	804	6,155
Non-Interest Expenses (1)	1,321	2,722	613	4,656
Earnings Before Taxes (1)	$ 410	$ 898	$ 191	$ 1,499

The Company issues debt in a variety of maturities and currencies. The Company's funding strategy emphasizes long-term debt over short-term debt. As a result, the Company has reduced its reliance on short-term debt, including commercial paper, as a source of funding. As of November 30, 2002, the Company had $2.4 billion of short-term unsecured debt outstanding as compared to $7.8 billion five years ago.

In order to manage the refinancing risk of long-term debt the Company sets limits for the amount maturing over any three, six and twelve month horizon. The Company also manages the maturity refinancing risk of its term secured borrowings. Additionally, in order to limit its reliance on any given borrower, the Company also diversifies its lender base.

MANAGING LIQUIDITY, FUNDING AND CAPITAL RESOURCES

The Company's Finance Committee is responsible for developing, implementing and enforcing the liquidity, funding and capital policies. These policies include recommendations for capital and balance sheet size, as well as the allocation of capital and balance sheet to the business units. Through the establishment and enforcement of capital and funding limits, the Company's Finance Committee ensures compliance throughout the organization so that the Company is not exposed to undue risk.

TOTAL CAPITAL

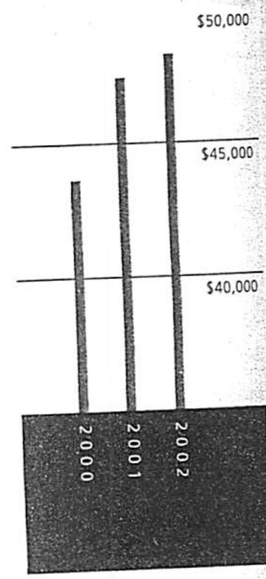
Total Capital
In millions
November 30

	2002	2001	2000
Long-Term Debt			
Senior Notes	$ 36,283	$ 35,373	$ 32,106
Subordinated Indebtedness	2,395	2,928	3,127
Subtotal	38,678	38,301	35,233
Preferred Securities Subject to Mandatory Redemption	710	710	860
Stockholders' Equity			
Preferred Equity	700	700	700
Common Equity	8,242	7,759	7,081
Subtotal	8,942	8,459	7,781
Total Capital	$ 48,330	$ 47,470	$ 43,874

The Company's Total Capital (defined as long-term debt, preferred securities subject to mandatory redemption and stockholders' equity) increased 2% to $48.3 billion at November 30, 2002, compared to $47.5 billion at November 30, 2001. The increase in Total Capital principally resulted from increased equity from the retention of earnings as well as a net increase in long-term debt.

Long-term debt increased to $38.7 billion at November 30, 2002 from $38.3 billion at November 30, 2001 with a weighted-average maturity of 4.0 years at November 30, 2002 and 3.8 years at November 30, 2001.

Total Capital
In millions



The Company operates in many regulated businesses that require various minimum levels of capital. These businesses are also subject to regulatory requirements that may restrict the free flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels and making advancements to affiliated companies. Additional information about the Company's capital requirements can be found in Note 12 to the Consolidated Financial Statements.

CREDIT FACILITIES

Holdings maintains a Revolving Credit Agreement (the "Credit Agreement") with a syndicate of banks. Under the Credit Agreement, the banks have committed to provide up to $1 billion through April 2005. The Credit Agreement contains covenants that require, among other things, that the Company maintain a specified level of tangible net worth. The Company views the Credit Agreement as one of its many sources of liquidity available through its funding framework, and as such the Company utilizes this liquidity for general business purposes from time to time.

The Company also maintains a backstop $750 million Committed Securities Repurchase Facility (the "Facility") for Lehman Brothers International (Europe) ("LBIE"), the Company's major operating entity in Europe. The Facility provides secured multi-currency financing for a broad range of collateral types. Under the terms of the Facility, the bank group has agreed to provide funding for up to one year on a secured basis. Any loans outstanding on the commitment termination date may be extended for up to an additional year at the option of LBIE. The Facility contains covenants which require, among other things, that LBIE maintain specified levels of tangible net worth. This commitment expires at the end of October 2003.

Report of Independent Auditors

**The Board of Directors and Stockholders of
Lehman Brothers Holdings Inc.**

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2002, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

New York, New York
January 10, 2003

Consolidated Statement of Income

In millions, except per share data *Twelve months ended November 30*	*2002*	*2001*	*2000*
Revenues			
Principal transactions	$ 1,951	$ 2,779	$ 3,713
Investment banking	1,771	2,000	2,216
Commissions	1,286	1,091	944
Interest and dividends	11,728	16,470	19,440
Other	45	52	134
Total revenues	16,781	22,392	26,447
Interest expense	10,626	15,656	18,740
Net revenues	6,155	6,736	7,707
Non-Interest Expenses			
Compensation and benefits	3,139	3,437	3,931
Technology and communications	552	501	341
Brokerage and clearance	329	308	264
Occupancy	287	198	135
Business development	146	183	182
Professional fees	129	152	184
Other	74	82	91
September 11th related (recoveries)/expenses, net	(108)	127	–
Other real estate reconfiguration charge	128	–	–
Regulatory settlement	80	–	–
Total non-interest expenses	4,756	4,988	5,128
Income before taxes and dividends on trust preferred securities	1,399	1,748	2,579
Provision for income taxes	368	437	748
Dividends on trust preferred securities	56	56	56
Net income	$ 975	$ 1,255	$ 1,775
Net income applicable to common stock	$ 906	$ 1,161	$ 1,679
Earnings per common share			
Basic	$ 3.69	$ 4.77	$ 6.89
Diluted	$ 3.47	$ 4.38	$ 6.38

See Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Condition

In millions *November 30*	*2002*	*2001*
Assets		
Cash and cash equivalents	$ 3,699	$ 2,561
Cash and securities segregated and on deposit for regulatory and other purposes	2,803	3,289
Securities and other financial instruments owned: (includes $22,211 in 2002 and $28,517 in 2001 pledged as collateral)	119,278	119,362
Collateralized short-term agreements:		
Securities purchased under agreements to resell	94,341	83,278
Securities borrowed	20,497	17,994
Receivables:		
Brokers, dealers and clearing organizations	3,775	3,455
Customers	8,279	12,123
Others	1,910	1,479
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $590 in 2002 and $424 in 2001)	2,075	1,495
Other assets	3,466	2,613
Excess of cost over fair value of net assets acquired (net of accumulated amortization of $155 in 2002 and $151 in 2001)	213	167
Total assets	$ 260,336	$ 247,816

See Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Condition *continued*

In millions, except per share data *November 30*	*2002*	*2001*
Liabilities and Stockholders' Equity		
Commercial paper and short-term debt	$ 2,369	$ 3,992
Securities and other financial instruments sold but not yet purchased	69,034	51,330
Collateralized short-term financing:		
Securities sold under agreements to repurchase	94,725	102,104
Securities loaned	8,137	12,541
Other secured borrowings	11,844	7,784
Payables:		
Brokers, dealers and clearing organizations	1,787	2,805
Customers	17,477	13,831
Accrued liabilities and other payables	6,633	5,959
Long-term debt:		
Senior notes	36,283	35,373
Subordinated indebtedness	2,395	2,928
Total liabilities	250,684	238,647
Commitments and contingencies		
Preferred securities subject to mandatory redemption	710	710
Stockholders' Equity		
Preferred stock	700	700
Common stock, $0.10 par value;		
Shares authorized: 600,000,000 in 2002 and 2001;		
Shares issued: 258,791,416 in 2002 and 256,178,907 in 2001;		
Shares outstanding: 231,131,043 in 2002 and 237,534,091 in 2001	25	25
Additional paid-in capital	3,628	3,562
Accumulated other comprehensive income (net of tax)	(13)	(10)
Retained earnings	5,608	4,798
Other stockholders' equity, net	949	746
Common stock in treasury, at cost: 27,660,373 shares in 2002 and 18,644,816 shares in 2001	(1,955)	(1,362)
Total stockholders' equity	8,942	8,459
Total liabilities and stockholders' equity	$ 260,336	$ 247,816

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Stockholders' Equity

In millions *Twelve months ended November 30*	*2002*	*2001*	*2000*
Preferred Stock			
5% Cumulative Convertible Voting, Series A and B:			
Beginning balance	$ –	$ –	$ 238
Shares subject to redemption	–	–	(150)
Shares repurchased	–	–	(88)
Ending balance	–	–	–
5.94% Cumulative, Series C:			
Beginning and ending balance	250	250	250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	250	250	–
Shares issued	–	–	250
Ending balance	250	250	250
Redeemable Voting:			
Beginning and ending balance	–	–	–
Total Preferred Stock, ending balance	700	700	700
Common Stock [1]	25	25	25
Additional Paid-In Capital [1]			
Beginning balance	3,562	3,589	3,374
RSUs exchanged for Common Stock	63	(13)	(54)
Employee stock-based awards	53	53	101
Shares issued to RSU Trust	(401)	(628)	(210)
Tax benefits from the issuance of stock-based awards	347	549	373
Other, net	4	12	5
Ending balance	$ 3,628	$ 3,562	$ 3,589

[1] Amounts have been retroactively adjusted to give effect for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on October 20, 2000.

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Stockholders' Equity *continued*

In millions *Twelve months ended November 30*	*2002*	*2001*	*2000*
Accumulated Other Comprehensive Income			
Beginning balance	$ (10)	$ (8)	$ (2)
Translation adjustment, net[2]	(3)	(2)	(6)
Ending balance	(13)	(10)	(8)
Retained Earnings			
Beginning balance	4,798	3,713	2,094
Net income	975	1,255	1,775
Dividends declared:			
5% Cumulative Convertible Voting Series A and B Preferred Stock	–	(1)	(9)
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	(18)	(18)	(12)
Redeemable Voting Preferred Stock	(25)	(50)	(50)
Common Stock	(96)	(75)	(59)
Ending balance	5,608	4,798	3,713
Common Stock Issuable			
Beginning balance	2,933	2,524	1,768
RSUs exchanged for Common Stock	(463)	(215)	(247)
Deferred stock awards granted	407	624	1,003
Other, net	(55)	–	–
Ending balance	2,822	2,933	2,524
Common Stock Held in RSU Trust			
Beginning balance	(827)	(647)	(717)
Shares issued to RSU Trust	(297)	(403)	(231)
RSUs exchanged for Common Stock	387	223	301
Other, net	(17)	–	–
Ending balance	(754)	(827)	(647)
Deferred Stock Compensation			
Beginning balance	(1,360)	(1,280)	(797)
Deferred stock awards granted	(407)	(624)	(1,003)
Amortization of deferred compensation, net	570	544	520
Other, net	78	–	–
Ending balance	(1,119)	(1,360)	(1,280)
Common Stock In Treasury, at Cost			
Beginning balance	(1,362)	(835)	(150)
Treasury stock purchased	(1,510)	(1,676)	(1,203)
RSUs exchanged for Common Stock	–	5	–
Shares issued for preferred stock conversion	–	44	–
Employee stock-based awards	219	69	77
Shares issued to RSU Trust	698	1,031	441
Ending balance	(1,955)	(1,362)	(835)
Total stockholders' equity	$ 8,942	$ 8,459	$ 7,781

[2] Net of income taxes of $(1) in 2002, $(1) in 2001 and $(8) in 2000.

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In millions *Twelve months ended November 30*	*2002*	*2001*	*2000*
Cash Flows From Operating Activities			
Net Income	$ 975	$ 1,255	$ 1,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	258	174	102
Deferred tax provision (benefit)	(670)	(643)	(169)
Tax benefit from issuance of stock-based awards	347	549	373
Amortization of deferred stock compensation	570	544	520
September 11th (recoveries) expenses	(108)	356	–
Other real estate reconfiguration charge	128	–	–
Regulatory settlement	80	–	–
Other adjustments	92	(1)	65
Net change in:			
Cash and securities segregated and on deposit	486	(855)	(445)
Securities and other financial instruments owned	1,708	(13,219)	(16,148)
Securities borrowed	(2,503)	(376)	1,779
Other secured financing	4,060	3,805	3,979
Receivables from brokers, dealers and clearing organizations	(320)	(1,793)	12
Receivables from customers	3,844	(4,538)	1,747
Securities and other financial instruments sold but not yet purchased	17,704	16,045	(11,325)
Securities loaned	(4,404)	5,299	2,674
Payables to brokers, dealers and clearing organizations	(1,018)	883	738
Payables to customers	3,646	2,194	666
Accrued liabilities and other payables	277	(27)	1,262
Other operating assets and liabilities, net	(693)	(325)	(1,136)
Net cash provided by (used in) operating activities	24,459	9,327	(13,531)
Cash Flows From Financing Activities			
Proceeds from issuance of senior notes	8,415	9,915	14,225
Principal payments of senior notes	(9,014)	(7,646)	(8,353)
Principal payments of subordinated indebtedness	(715)	(204)	(192)
Net proceeds from (payments for) commercial paper and short-term debt	(1,623)	(1,808)	324
Resale agreements net of repurchase agreements	(18,442)	(8,957)	8,922
Payments for repurchases of preferred stock	–	(100)	(88)
Payments for treasury stock purchases, net	(1,303)	(1,676)	(1,203)
Dividends paid	(165)	(163)	(149)
Issuances of common stock	61	54	99
Issuance of preferred stock, net of issuance costs	–	–	250
Net cash provided by (used in) financing activities	(22,786)	(10,585)	13,835
Cash Flows From Investing Activities			
Purchases of property, equipment and leasehold improvements, net	(656)	(1,341)	(289)
Proceeds from the sale of 3 World Financial Center, net	152	–	–
Acquisition, net of cash acquired	(31)	–	(41)
Net cash used in investing activities	(535)	(1,341)	(330)
Net change in cash and cash equivalents	1,138	(2,599)	(26)
Cash and cash equivalents, beginning of period	2,561	5,160	5,186
Cash and cash equivalents, end of period	$ 3,699	$ 2,561	$ 5,160

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (in millions):

Interest paid totaled $10,686 in 2002, $15,588 in 2001 and $18,500 in 2000.

Income taxes paid totaled $436 in 2002, $654 in 2001 and $473 in 2000.

See Notes to Consolidated Financial Statements.

Note 9 Common Stock

In October 2000, Lehman Brothers' Board of Directors declared a two-for-one common stock split, effected in the form of a 100% stock dividend. All share and per share data presented in this Annual Report to Stockholders reflect the effect of the split.

In April 2001, the Company's shareholders approved the adoption of an amendment of the Company's Restated Certificate of Incorporation to increase the aggregate number of authorized shares of common stock from 300 million to 600 million.

During the years ended November 30, 2002, 2001 and 2000, the Company repurchased or acquired shares of its Common Stock at an aggregate cost of approximately $1,510 million, $1,676 million and $1,203 million, respectively. These shares were acquired in the open market and from employees who had tendered mature shares to pay for the exercise cost of stock options or for tax withholding obligations on RSU issuance or option exercises.

Changes in shares of Holdings' common stock outstanding are as follows:

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") in order to provide common stock voting rights to employees who hold outstanding restricted stock units and to encourage employees to think and act like owners. The RSU Trust was initially funded in 1997 with a total of 32.0 million shares consisting of 10.0 million treasury shares for restricted stock unit ("RSU") awards under the Employee Incentive Plan and 22.0 million new issue shares of Common Stock for RSU awards under the 1994 Management Ownership Plan. In 2002, 2001 and 2000, 9.3 million, 16.0 million and 11.8 million treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2002, approximately 36.6 million shares were held in the RSU Trust with a total value of approximately $754 million. For accounting purposes, these shares are valued at weighted-average grant prices.

Shares transferred to the RSU Trust do not impact the total number of shares used in the computation of earnings per common share because the Company considers the RSUs as common stock equivalents for purposes of this computation. Accordingly, the RSU Trust has had no effect on the total equity, net income or earnings per share of the Company.

Common Stock

November 30	*2002*	*2001*	*2000*
Shares outstanding, beginning of period	237,534,091	236,395,332	239,825,620
Exercise of stock options and other share issuances	10,455,954	8,369,721	10,015,048
Treasury stock purchases	(26,159,002)	(23,230,962)	(25,245,336)
Issuances of shares to the RSU Trust	9,300,000	16,000,000	11,800,000
Shares outstanding, end of period	231,131,043	237,534,091	236,395,332

Note 10 Incentive Plans

EMPLOYEE STOCK PURCHASE PLAN

The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of $25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. As of November 30, 2002 and 2001, 5.8 million shares and 5.5 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP.

1994 MANAGEMENT OWNERSHIP PLAN

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of restricted stock units ("RSUs"), performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2002, RSU, PSU and stock option awards with respect to 31.2 million shares of Common Stock have been made under the 1994 Plan of which 1.5 million are outstanding and 29.7 million have been converted to freely transferable Common Stock.

1996 MANAGEMENT OWNERSHIP PLAN

During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2002, RSU, PSU and stock option awards with respect to 34.8 million shares of Common Stock have been made under the 1996 Plan of which 19.2 million are outstanding and 15.6 million have been converted to freely transferable Common Stock.

EMPLOYEE INCENTIVE PLAN

The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors for the issuance of up to 246.0 million shares of Common Stock which may be subject to awards. At November 30, 2002, awards with respect to 186.7 million shares of Common Stock have been made under the EIP of which 132.2 million are outstanding and 54.5 million have been converted to freely transferable Common Stock.

The following is a summary of RSUs outstanding under Holdings' stock-based incentive plans:

Restricted Stock Units	Total
Balance, November 30, 1999	83,065,780
Granted	22,220,829
Canceled	(3,416,523)
Exchanged for stock without restrictions	(19,247,545)
Balance, November 30, 2000	82,622,541
Granted	15,292,447
Canceled	(3,268,825)
Exchanged for stock without restrictions	(18,189,092)
Balance, November 30, 2001	76,457,071
Granted	9,178,667
Canceled	(1,750,479)
Exchanged for stock without restrictions	(14,547,191)
Balance, November 30, 2002	69,338,068

Eligible employees receive RSUs as a portion of their total compensation in lieu of cash. There is no further cost to employees associated with the RSU awards. The Company measures compensation cost for RSUs based on the market value of its Common Stock at the grant date and amortizes this amount to expense over the applicable vesting periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years from the grant date. Holdings accrues a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on its Common Stock.

The Company has repurchased approximately 47 million shares to offset the future delivery requirements associated with the above RSUs. These shares have either been transferred to the RSU trust (see Note 9 Common Stock) or are held as Treasury stock.

In 2002, the Company delivered 10.9 million shares of its Common Stock to current and former employees in satisfaction of RSUs awarded in 1997. Substantially all of the shares delivered were funded from the RSU Trust. The Company also received 3.4 million shares from current and former employees in satisfaction of applicable tax withholding requirements. Shares received were recorded as Treasury stock at an aggregate value of $207 million.

Of the RSUs outstanding at November 30, 2002, approximately 46.7 million RSUs were amortized, approximately 9.4 million RSUs will be amortized during fiscal 2003, and the remaining RSUs will be amortized subsequent to November 30, 2003.

Included in the previous table are PSUs the Company has awarded to certain senior officers. The number of PSUs which may be earned is dependent upon the achievement of certain performance levels within predetermined performance periods. During the performance period these PSUs are accounted for as variable awards. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs which then vest in three or more years. As of November 30, 2002, approximately 10.4 million PSUs have been awarded to date, subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Total compensation cost recognized during 2002, 2001 and 2000 for the Company's stock-based awards was approximately $570 million, $544 million and $520 million, respectively.

At November 30, 2002 and 2001, approximately 13.0 million and 14.8 million stock options, respectively, were exercisable at weighted-average prices of $29.95 and $25.04, respectively. The weighted-average remaining contractual life of the stock options outstanding at November 30, 2002 is 6.52 years. The exercise price for all stock options awarded has been equal to the market price of Common Stock on the day of grant.

in 2002 from $814 million in 2001 was primarily due to a change in inventory mix to higher levels of interest-bearing assets in response to shifts in customer asset preferences.

Investment Banking

Investment banking revenues totaled $1,747 million, $1,771 million and $2,000 million in 2003, 2002 and 2001, respectively. Investment banking revenues result primarily from fees and related revenues earned for underwriting public and private offerings of fixed income and equity securities, advising clients on M&A activities and corporate financing activities. Investment banking revenues of $1,747 million in 2003 were essentially unchanged compared with $1,771 million in 2002, as lower equity underwriting and M&A market volumes were mostly offset by record fixed income underwriting volumes. Industry-wide, global equity market volume declined 2%, while completed M&A advisory market volume was down 17% compared with the already depressed levels of 2002. Fixed income market volume was up 25% compared with 2002. Investment banking revenues declined 11% in 2002 compared with 2001, reflecting significant market weakness in equity underwriting and M&A advisory activities partially offset by improvements in the Company's market share for completed M&A transactions and underwriting of certain fixed income and equity products (see page 41 for a discussion of the Company's Investment Banking segment).

NON-INTEREST EXPENSES

IN MILLIONS YEAR ENDED NOVEMBER 30	2003	2002	2001	Percent Change 2003/2002	Percent Change 2002/2001
Compensation and benefits	**$4,318**	$3,139	$3,437	38%	(9)%
Non-personnel expenses (excluding the Special Items described below)	**1,716**	1,517	1,424	13	7
Other real estate reconfiguration charge	**77**	128	–	(40)	–
September 11th related (recoveries)/expenses, net	–	(108)	127	–	–
Regulatory settlement	–	80	–	–	–
Total non-interest expenses	**$6,111**	$4,756	$4,988	28%	(5)%
Compensation and benefits/Net revenues	**49.9%**	51.0%	51.0%		

A significant portion of the Company's expense base is variable, including compensation and benefits, brokerage and clearing, and business development. The Company expects its variable expenses as a percentage of net revenues to remain in approximately the same proportions in future periods.

Non-interest expenses were $6,111 million in 2003, $4,756 million in 2002 and $4,988 million in 2001 and include a number of Special Items. Non-interest expenses in 2003 include a pre-tax real estate charge of $77 million ($45 million after-tax) associated with the Company's previous decision to dispose of certain excess real estate. Non-interest expenses in 2002 include a pre-tax net gain of $108 million associated with September 11th related costs and insurance settlement proceeds, a $128 million pre-tax charge associated with decisions to reconfigure certain global real estate facilities and an $80 million pre-tax charge related to the settlement of allegations of research analyst conflicts of interest. The 2003 and 2002 real estate-related charges were recognized in accordance with Emerging Issues Task Force ("EITF") Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."* These charges represent estimated sublease losses expected to be incurred upon exiting certain of the Company's facilities, prinicipally in London and New York. The Company expects that substantially all of such facilities will be subleased by the end of 2004. The net pre-tax effect of these 2002 items is a charge of $100 million ($78 million after-tax). Non-interest expenses in 2001 include a $127 million pre-tax charge ($71 million after-tax) stemming from the events of September 11th, which resulted in the displacement and relocation of substantially all of the Company's New York based employees. Additional information about these Special Items can be found in Notes 20 and 21 to the Consolidated Financial Statements.

Compensation and benefits expense was $4,318 million, $3,139 million and $3,437 million in 2003, 2002 and 2001, respectively. Compensation and benefits expense as a percentage of net revenues was 49.9% in 2003 and 51.0% in 2002 and 2001. Compensation and benefits expense includes the cost of salaries, bonuses, the amortization of deferred stock compensation awards and employee benefit plans. Variable compensation, consisting primarily of bonuses, increased to $2,283 million in 2003 up from $1,198 million in 2002,

GS-15

while fixed compensation, consisting primarily of salaries and benefits, increased to $2,035 million in 2003 from $1,941 million in 2002. The increase in fixed compensation primarily resulted from increased salary costs associated with several business acquisitions completed during the year (see "Business Acquisitions") as well as increases in pension expense. Compensation and benefits expense declined 9% in 2002 compared with 2001 commensurate with the 9% decline in Net revenues. Included in compensation and benefits expense is net pension expense/(income) of $45 million, $26 million and $(32) million in 2003, 2002 and 2001, respectively. Amortization of deferred stock compensation awards totaled $625 million, $570 million and $544 million in 2003, 2002 and 2001, respectively.

Non-personnel expenses (excluding the Special Items) were $1,716 million in 2003, up $199 million or 13% compared with $1,517 million in 2002. The increase in non-personnel expenses is principally attributable to increases in occupancy, technology and communications, and brokerage and clearance expenses, as well as the effect of business acquisitions during 2003 (for additional information see Note 6 to the Consolidated Financial Statements). Occupancy expenses increased 11% to $319 million in 2003 from $287 million in 2002 principally attributable to the increased cost of the Company's new corporate headquarters and additional space needed to accommodate the growth in headcount. Technology and communications expenses were $598 million in 2003 compared with $552 million in 2002, an increase of 8%. The growth reflects amortization of technology assets at new facilities and higher spending associated with the enhancement of capital markets trading platforms and technology infrastructure. Brokerage and clearance expenses rose 12% in 2003 primarily attributable to increased volumes in fixed income products, in addition to the Company's expansion in equities-related businesses in 2003. Professional fees increased by 22% in 2003 compared with 2002, principally due to higher legal, accounting and audit fees incurred in the current industry environment. In the aggregate, $53 million of non-personnel expenses in 2003 are attributable to business acquisitions. Non-personnel expenses (excluding the Special Items) increased 7% in 2002 from 2001 primarily due to investments in technology and communications, higher occupancy expenses to accommodate headcount growth and the increased cost of the new corporate headquarters, and increased brokerage and clearance expenses due to higher volumes in certain fixed income structured products.

Income Taxes

The provision for income taxes totaled $765 million, $368 million and $437 million in 2003, 2002 and 2001, respectively. These provisions resulted in effective tax rates of 30.2%, 26.3% and 25.0%, respectively. The increase in the effective tax rate in 2003 compared with 2002 was primarily due to a higher level of pre-tax income, which reduced the impact of permanent differences, including a decrease in tax-exempt income, partially offset by an increase in tax benefits from foreign operations. The increase in the effective tax rate in 2002 compared with 2001 was primarily due to a less favorable mix of geographic earnings, partially offset by a greater impact of permanent differences, including tax-exempt income. For additional information see Note 19 to the Consolidated Financial Statements.

Business Acquisitions

On October 31, 2003, the Company purchased Neuberger as part of the Company's strategic plan to build out its Client Services segment. This acquisition positions the Company as one of the industry's leading providers of services to high-net-worth investors, bringing the Company's assets under management to over $116 billion at November 30, 2003. The Company, with this acquisition, significantly strengthened its Client Services segment and further diversified its revenue base. The Neuberger acquisition strengthened the Company's revenues from fee-based activities, allowing for improved cross-cycle performance and reduced earnings volatility. The Company believes this acquisition will provide revenue synergies by (a) making Neuberger products available to the Lehman Brothers network of institutional and high-net worth individual clients in all three geographic regions and (b) offering Neuberger clients an expanded range of investment and risk management products, including structured capital markets products, private equity, and other alternative asset management products. The Company's estimated $100 million of revenue and cost synergies of the combined businesses leads the Company to believe that the Neuberger acquisition will be slightly dilutive to earnings per share in 2004 and approximately break even by 2005.

The Company purchased Neuberger for a net purchase price of approximately $2,788 million, including cash consideration and incidental costs of $690 million, equity consideration of $2,374 million (including 32.3 million shares of common stock, 0.3 million shares of restricted common stock and 3.5 million vested stock options) and excluding net cash and short-term investments acquired of $276 million. The Company also issued approximately 0.5 million shares of restricted common stock valued at $42 million, which is subject to future service requirements and will be amortized over the applicable service periods (for additional information see Note 15 to the Consolidated Financial Statements). The Company intends for the Neuberger brand to remain intact. The Neuberger acquisition resulted in an increase of approximately 1,200 employees.

During the second quarter of 2003, the Company acquired a controlling interest in Aurora Loan Services ("ALS"), a residential mortgage loan originator and servicer. The Company believes this acquisition adds long-term value to its mortgage franchise by allowing further vertical integration of the business platform. Mortgage loans originated by ALS are intended to provide a more cost efficient source of loan product for the Company's securitization pipeline. The Company also made three

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2003, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

New York, New York
January 29, 2004

CONSOLIDATED STATEMENT OF INCOME

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2003	2002	2001
REVENUES			
Principal transactions	$ 4,280	$ 1,951	$ 2,779
Investment banking	1,747	1,771	2,000
Commissions	1,210	1,286	1,091
Interest and dividends	9,942	11,728	16,470
Other	108	45	52
Total revenues	17,287	16,781	22,392
Interest expense	8,640	10,626	15,656
Net revenues	8,647	6,155	6,736
NON-INTEREST EXPENSES			
Compensation and benefits	4,318	3,139	3,437
Technology and communications	598	552	501
Brokerage and clearance fees	367	329	308
Occupancy	319	287	198
Professional fees	158	129	152
Business development	149	146	183
Other	125	74	82
Other real estate reconfiguration charge	77	128	–
September 11th related (recoveries)/expenses, net	–	(108)	127
Regulatory settlement	–	80	–
Total non-interest expenses	6,111	4,756	4,988
Income before taxes and dividends on trust preferred securities	2,536	1,399	1,748
Provision for income taxes	765	368	437
Dividends on trust preferred securities	72	56	56
Net income	$ 1,699	$ 975	$ 1,255
Net income applicable to common stock	$ 1,649	$ 906	$ 1,161
Earnings per common share			
Basic	$6.71	$ 3.69	$ 4.77
Diluted	$6.35	$ 3.47	$ 4.38

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(continued)

IN MILLIONS YEAR ENDED NOVEMBER 30	2003	2002	2001
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Beginning balance	**$ (13)**	$ (10)	$ (8)
Translation adjustment, net [1]	**(3)**	(3)	(2)
Ending balance	**(16)**	(13)	(10)
RETAINED EARNINGS			
Beginning balance	**5,608**	4,798	3,713
Net income	**1,699**	975	1,255
Dividends declared:			
5.00% Cumulative Convertible Voting Series A and B Preferred Stock	**–**	–	(1)
5.94% Cumulative, Series C Preferred Stock	**(15)**	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	**(11)**	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	**(18)**	(18)	(18)
6.50% Cumulative, Series F Preferred Stock	**(6)**	–	–
Redeemable Voting Preferred Stock	**–**	(25)	(50)
Common Stock	**(128)**	(96)	(75)
Ending balance	**7,129**	5,608	4,798
COMMON STOCK ISSUABLE			
Beginning balance	**2,822**	2,933	2,524
RSUs exchanged for Common Stock	**(425)**	(463)	(215)
Deferred stock awards granted	**957**	407	624
Other, net	**(1)**	(55)	–
Ending balance	***3,353***	*2,822*	*2,933*
COMMON STOCK HELD IN RSU TRUST			
Beginning balance	**(754)**	(827)	(647)
Shares issued to RSU Trust	**(518)**	(297)	(403)
RSUs exchanged for Common Stock	**444**	387	223
Other, net	**(24)**	(17)	–
Ending balance	**(852)**	(754)	(827)
DEFERRED STOCK COMPENSATION			
Beginning balance	**(1,119)**	(1,360)	(1,280)
Deferred stock awards granted	**(999)**	(407)	(624)
Amortization of deferred compensation, net	**625**	570	544
Other, net	**23**	78	–
Ending balance	**(1,470)**	(1,119)	(1,360)
COMMON STOCK IN TREASURY, AT COST			
Beginning balance	**(1,955)**	(1,362)	(835)
Treasury stock purchased	**(1,508)**	(1,510)	(1,676)
RSUs exchanged for Common Stock	**18**	–	5
Shares issued for preferred stock conversion	**–**	–	44
Employee stock-based awards	**260**	219	69
Shares issued to RSU Trust	**977**	698	1,031
Ending balance	**(2,208)**	(1,955)	(1,362)
Total stockholders' equity	**$13,174**	$ 8,942	$ 8,459

[1] Net of income taxes of $(1) in 2003, $(1) in 2002 and $(1) in 2001.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS YEAR ENDED NOVEMBER 30	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 1,699**	$ 975	$ 1,255
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**315**	258	174
Deferred tax provision (benefit)	**(166)**	(670)	(643)
Tax benefit from issuance of stock-based awards	**543**	347	549
Amortization of deferred stock compensation	**625**	570	544
September 11th (recoveries) expenses	**–**	(108)	356
Other real estate reconfiguration charge	**77**	128	–
Regulatory settlement	**–**	80	–
Other adjustments	**(26)**	92	(1)
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	**(297)**	486	(855)
Securities and other inventory positions owned	**(16,148)**	1,708	(13,219)
Securities borrowed, net of securities loaned	**(25,048)**	(6,907)	4,923
Other secured borrowings	**2,700**	4,060	3,805
Resale agreements, net of repurchase agreements	**19,504**	(18,442)	(8,957)
Receivables from brokers, dealers and clearing organizations	**(1,100)**	(320)	(1,793)
Receivables from customers	**(530)**	3,844	(4,538)
Securities and other inventory positions sold but not yet purchased	**6,848**	17,704	16,045
Payables to brokers, dealers and clearing organizations	**1,280**	(1,018)	883
Payables to customers	**10,189**	3,646	2,194
Accrued liabilities and other payables	**1,736**	277	(27)
Other operating assets and liabilities, net	**346**	(693)	(394)
Net cash provided by operating activities	**2,547**	6,017	301
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior notes	**13,193**	8,415	9,915
Principal payments of senior notes	**(9,815)**	(9,014)	(7,646)
Proceeds from issuance of subordinated indebtedness	**190**	–	–
Principal payments of subordinated indebtedness	**(322)**	(715)	(204)
Issuances of common stock	**57**	61	54
Issuance of preferred securities subject to mandatory redemption	**600**	–	–
Issuance of preferred stock, net of issuance costs	**345**	–	–
Net payments for commercial paper and short-term debt	**(38)**	(1,623)	(1,808)
Repurchases of preferred stock	**–**	–	(100)
Payments for treasury stock purchases	**(1,508)**	(1,510)	(1,676)
Issuance of treasury stock	**260**	207	69
Dividends paid	**(178)**	(165)	(163)
Net cash provided by (used in) financing activities	**2,784**	(4,344)	(1,559)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and leasehold improvements, net	**(451)**	(656)	(1,341)
Proceeds from the sale of 3 World Financial Center, net	**–**	152	–
Business acquisitions, net of cash acquired	**(657)**	(31)	–
Net cash used in investing activities	**(1,108)**	(535)	(1,341)
Net change in cash and cash equivalents	**4,223**	1,138	(2,599)
Cash and cash equivalents, beginning of period	**3,699**	2,561	5,160
Cash and cash equivalents, end of period	**$ 7,922**	$ 3,699	$ 2,561

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (in millions):
Interest paid totaled $8,654 in 2003, $10,686 in 2002 and $15,588 in 2001.
Income taxes paid totaled $717 in 2003, $436 in 2002 and $654 in 2001.

See Notes to Consolidated Financial Statements.

7.115% per annum through May 31, 2005; thereafter the rate will be the higher of either the three-month U.S. Treasury Bill rate, the 10-year Treasury constant maturity rate or the 30-year U.S. Treasury constant maturity rate, in each case plus 1.15%, but in any event not less than 7.615% nor greater than 13.615%. The shares of Series E Preferred Stock have a redemption price of $5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series E Preferred Stock beginning on May 31, 2005. The $250 million redemption value of the shares outstanding at November 30, 2003 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

Series F

On August 20, 2003, Holdings issued 13,800,000 Depositary Shares, each representing 1/100th of a share of 6.50% Cumulative Preferred Stock, Series F ("Series F Preferred Stock"), $1.00 par value. The shares of Series F Preferred Stock have a redemption price of $2,500 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series F Preferred Stock beginning on August 31, 2008. The $345 million redemption value of the shares outstanding at November 30, 2003 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

The Series C, D, E and F Preferred Stock has no voting rights except as provided below or as otherwise from time to time required by law. If dividends payable on any of the Series C, D, E or F Preferred Stock or on any other equally-ranked series of preferred stock have not been paid for six or more quarters, whether or not consecutive, the authorized number of directors of the Company will automatically be increased by two. The holders of the Series C, D, E or F Preferred Stock will have the right, with holders of any other equally-ranked series of preferred stock that have similar voting rights and on which dividends likewise have not been paid, voting together as a class, to elect two directors to fill such newly-created directorships until the dividends in arrears are paid.

Redeemable Voting

In 1994, Holdings issued the Redeemable Voting Preferred Stock to American Express and Nippon Life for $1,000. The holders of the Redeemable Voting Preferred Stock were entitled to receive annual dividends through May 31, 2002, in an amount equal to 50% of the amount, if any, by which the Company's net income for each year exceeded $400 million, up to a maximum of $50 million per year ($25 million on a pro-rated basis, for the last dividend period, which ran from December 1, 2001 to May 31, 2002). For the years ended November 30, 2002 and 2001, the Company's net income resulted in the recognition of dividends in those years in the amounts of $25 million and $50 million respectively, on the Redeemable Voting Preferred Stock. On the final dividend payment date, July 15, 2002, Holdings redeemed all of the Redeemable Preferred Stock, for a total of $1,000.

NOTE 14 COMMON STOCK

In April 2001, the Company's shareholders approved the adoption of an amendment of the Company's Restated Certificate of Incorporation to increase the aggregate number of authorized shares of common stock from 300 million to 600 million.

During the years ended November 30, 2003, 2002 and 2001, the Company repurchased or acquired shares of its common stock at an aggregate cost of approximately $1,508 million, $1,510 million and $1,676 million, respectively. These shares were acquired in the open market and from employees who tendered mature shares to pay for the exercise cost of stock options or for statutory tax withholding obligations on RSU issuances or option exercises.

Changes in the number of shares of Holdings' common stock outstanding are as follows:

COMMON STOCK

NOVEMBER 30	2003	2002	2001
Shares outstanding, beginning of period	**231,131,043**	237,534,091	236,395,332
Exercise of stock options and other share issuances	**11,538,125**	10,455,954	8,369,721
Issuances of shares to the RSU Trust	**14,000,000**	9,300,000	16,000,000
Shares issued in connection with the Neuberger acquisition	**33,130,804**	–	–
Treasury stock purchases	**(23,120,916)**	(26,159,002)	(23,230,962)
Shares outstanding, end of period	**266,679,056**	231,131,043	237,534,091

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") to provide common stock voting rights to employees who hold outstanding restricted stock units ("RSUs") and to encourage employees to think and act like owners. In 2003, 2002 and 2001, 14.0 million, 9.3 million and 16.0 million treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2003, approximately 33.4 million shares were held in the RSU Trust with a total value of approximately $851 million. For accounting purposes, these shares are valued at weighted-average grant prices. Shares transferred to the RSU Trust do not affect the total number of shares used in the computation of earnings per common share because the Company considers the RSUs to be common stock equivalents for purposes of this computation. Accordingly, the RSU Trust has no effect on the total equity, net income or earnings per share of the Company.

In connection with the Neuberger acquisition, the Company issued 32,326,000 shares of common stock to acquire Neuberger and 804,804 shares of restricted common stock, a portion of which is subject to future service requirements.

NOTE 15 INCENTIVE PLANS

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of $25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. At November 30, 2003 and 2002, 6.1 million shares and 5.8 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP.

1994 Management Ownership Plan

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2003, RSU, PSU and stock option awards with respect to 31.2 million shares of Common Stock have been made under the 1994 Plan, of which 1.5 million are outstanding and 29.7 million have been converted to freely transferable Common Stock.

1996 Management Ownership Plan

During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2003, RSU, PSU and stock option awards with respect to 38.1 million shares of Common Stock have been made under the 1996 Plan of which 18.7 million are outstanding and 19.4 million have been converted to freely transferable Common Stock.

Employee Incentive Plan

The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors for the issuance of up to 246.0 million shares of Common Stock that may be subject to awards. At November 30, 2003 awards with respect to 204.5 million shares of Common Stock have been made under the EIP of which 125.3 million are outstanding and 79.2 million have been converted to freely transferable Common Stock.

The following is a summary of RSUs outstanding under Holdings' stock-based incentive plans:

RESTRICTED STOCK UNITS

	Total
BALANCE, NOVEMBER 30, 2000	82,622,541
Granted	15,292,447
Canceled	(3,268,825)
Exchanged for stock without restrictions	(18,189,092)
BALANCE, NOVEMBER 30, 2001	76,457,071
Granted	9,178,667
Canceled	(1,750,479)
Exchanged for stock without restrictions	(14,547,191)
BALANCE, NOVEMBER 30, 2002	69,338,068
Granted	13,071,646
Canceled	(1,447,319)
Exchanged for stock without restrictions	(18,344,208)
BALANCE, NOVEMBER 30, 2003 [1]	62,618,187

[1] Excludes RSUs issued in connection with the Company's acquisition of Neuberger. See Neuberger Acquisition on page 97 and Note 6 to the Consolidated Financial Statements.

Eligible employees receive RSUs as a portion of their total compensation in lieu of cash. There is no further cost to employees associated with the RSU awards. The Company measures compensation cost for RSUs based on the market value of its Common Stock at the grant date and amortizes this amount to expense over the applicable vesting periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years from the grant date. Holdings accrues a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on its Common Stock.

NON-INTEREST EXPENSES

IN MILLIONS YEAR ENDED NOVEMBER 30	2004	2003	2002	Percent Change 2004/2003	2003/2002
Compensation and benefits	**$5,730**	$4,318	$3,139	33%	38%
Non-personnel expenses (excluding the Special Items described below)	**2,309**	1,716	1,517	35	13
Other real estate reconfiguration charge	**19**	77	128	(75)	(40)
September 11th related recoveries, net	**–**	–	(108)	–	–
Regulatory settlement	**–**	–	80	–	–
Total non-interest expenses	**$8,058**	$6,111	$4,756	32%	28%
Compensation and benefits/Net revenues	**49.5%**	49.9%	51.0%		

Non-interest expenses were $8.1 billion, $6.1 billion and $4.8 billion in 2004, 2003 and 2002, respectively, and include a number of Special Items discussed below. We continue to maintain a strict discipline in our core competency of managing expenses. Compensation and benefits expense as a percentage of net revenues was 49.5%, 49.9% and 51.0% in 2004, 2003 and 2002, respectively. Non-personnel expenses as a percentage of net revenues were 20.1%, 20.7% and 26.3% in 2004, 2003 and 2002, respectively. A significant portion of our expense base is variable, including compensation and benefits, brokerage and clearance, and business development. We expect our variable expenses as a percentage of net revenues to remain in approximately the same proportions in future periods.

Compensation and benefits expense was $5.7 billion, $4.3 billion and $3.1 billion in 2004, 2003 and 2002, respectively. Headcount totaled approximately 19,600, 16,200 and 12,300 at November 30, 2004, 2003 and 2002, respectively, reflecting a combination of business acquisitions and organic growth. Compensation and benefits expense includes both fixed and variable components. Fixed compensation, consisting primarily of salaries, benefits and amortization of previous years' deferred equity awards, totaled $2.6 billion, $2.0 billion and $1.9 billion in 2004, 2003 and 2002, respectively. The growth of fixed compensation expense in 2004 compared with 2003 was due primarily to the increase in headcount attributable to business acquisitions (see Consolidated Results of Operations—Business Acquisitions and Dispositions in this MD&A) coupled with organic growth related to certain business activity. The growth in fixed compensation expense in 2003 compared with 2002 primarily resulted from the acquisitions as well as an increase in pension expense. Variable compensation, consisting primarily of incentive compensation, commissions and severance, totaled $3.1 billion, $2.3 billion and $1.2 billion in 2004, 2003 and 2002, respectively, as higher revenues resulted in higher incentive compensation. Amortization of deferred stock compensation awards was $800 million, $625 million and $570 million in 2004, 2003 and 2002, respectively.

Non-personnel expenses totaled $2.3 billion, $1.8 billion and $1.6 billion in 2004, 2003 and 2002, respectively. The increase in non-personnel expenses in 2004 compared with 2003 is attributable to business acquisitions coupled with increased technology initiatives, higher occupancy costs and higher levels of business activity. The increase in non-personnel expenses in 2003 compared with 2002 is attributable primarily to increases in occupancy, technology and communications, and brokerage and clearance expenses, as well as the effect of business acquisitions.

Technology and communications expenses rose 28% in 2004 compared with 2003 reflecting the business acquisitions, the depreciation of technology assets at new facilities, and increased costs associated with the continued build-out of Capital Markets platforms and infrastructure. Brokerage and clearance expenses rose 23% in 2004 compared with 2003, due primarily to higher volumes in Capital Markets products and expansion in equities-related businesses. Occupancy expenses increased 32% in 2004 compared with 2003 primarily attributable to the business acquisitions and the increased cost of our new facilities in London and Tokyo. Professional fees increased 59% in 2004 compared with 2003 due to the business acquisitions and higher recruiting and legal fees. Business development expenses increased 42% in 2004 compared with 2003 due to the higher level of business activity and the business acquisitions. Other expenses increased 66% in 2004 compared with 2003 attributable primarily to the business acquisitions, including mutual fund distribution costs and the amortization of intangible assets.

Technology and communications expenses rose 8% in 2003 compared with 2002 reflecting depreciation of technology assets at new facilities and higher spending associated with the enhancement of Capital Markets trading platforms and technology infrastructure. Brokerage and clearance expenses rose 12% in 2003 compared with 2002 primarily attributable to increased volumes in fixed income products and our expansion in equities-related businesses in 2003. Occupancy expenses increased 11% in 2003 compared with 2002 primarily attributable to the increased cost of our new headquarters in New York and additional space needed to accommodate the growth in headcount. Professional fees increased 22% in 2003 compared with 2002, primarily due to higher legal, accounting and audit fees.

GS-16

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2004, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
February 14, 2005

CONSOLIDATED STATEMENT OF INCOME

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2004	2003	2002
REVENUES			
Principal transactions	**$ 5,699**	$ 4,272	$ 1,951
Investment banking	**2,188**	1,722	1,731
Commissions	**1,537**	1,210	1,286
Interest and dividends	**11,032**	9,942	11,728
Asset management and other	**794**	141	85
Total revenues	**21,250**	17,287	16,781
Interest expense	**9,674**	8,640	10,626
Net revenues	**11,576**	8,647	6,155
NON-INTEREST EXPENSES			
Compensation and benefits	**5,730**	4,318	3,139
Technology and communications	**764**	598	552
Brokerage and clearance fees	**453**	367	329
Occupancy	**421**	319	287
Professional fees	**252**	158	129
Business development	**211**	149	146
Other	**208**	125	74
Other real estate reconfiguration charge	**19**	77	128
September 11th related recoveries, net	**–**	–	(108)
Regulatory settlement	**–**	–	80
Total non-interest expenses	**8,058**	6,111	4,756
Income before taxes and dividends on trust preferred securities	**3,518**	2,536	1,399
Provision for income taxes	**1,125**	765	368
Dividends on trust preferred securities	**24**	72	56
Net income	**$ 2,369**	$ 1,699	$ 975
Net income applicable to common stock	**$ 2,297**	$ 1,649	$ 906
EARNINGS PER COMMON SHARE			
Basic	**$ 8.36**	$ 6.71	$ 3.69
Diluted	**$ 7.90**	$ 6.35	$ 3.47

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

IN MILLIONS NOVEMBER 30	2004	2003
ASSETS		
Cash and cash equivalents	**$ 5,440**	$ 7,922
Cash and securities segregated and on deposit for regulatory and other purposes	**4,085**	3,100
Securities and other inventory positions owned: (includes $27,418 in 2004 and $32,273 in 2003 pledged as collateral)	**144,468**	133,634
Securities received as collateral	**4,749**	3,406
Collateralized agreements:		
Securities purchased under agreements to resell	**95,535**	87,416
Securities borrowed	**74,294**	51,396
Receivables:		
Brokers, dealers and clearing organizations	**3,400**	4,875
Customers	**13,241**	8,809
Others	**2,122**	1,626
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $1,187 in 2004 and $921 in 2003)	**2,988**	2,806
Other assets	**3,562**	3,510
Identifiable intangible assets and goodwill (net of accumulated amortization of $212 in 2004 and $166 in 2003)	**3,284**	3,561
Total assets	**$357,168**	$312,061

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(continued)

IN MILLIONS, EXCEPT PER SHARE DATA NOVEMBER 30	2004	2003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Commercial paper and short-term debt	$ 2,857	$ 2,331
Securities and other inventory positions sold but not yet purchased	96,281	72,476
Obligation to return securities received as collateral	4,749	3,406
Collateralized financing:		
Securities sold under agreements to repurchase	105,956	107,304
Securities loaned	14,158	13,988
Other secured borrowings	11,621	14,544
Payables:		
Brokers, dealers and clearing organizations	1,705	3,067
Customers	37,824	27,666
Accrued liabilities and other payables	10,611	9,266
Long-term debt:		
Senior notes	53,561	41,303
Subordinated indebtedness	2,925	2,226
Total liabilities	342,248	297,577
Commitments and contingencies		
Preferred securities subject to mandatory redemption	–	1,310
STOCKHOLDERS' EQUITY		
Preferred stock	1,345	1,045
Common stock, $0.10 par value;		
Shares authorized: 600,000,000 in 2004 and 2003;		
Shares issued: 297,796,197 in 2004 and 294,575,285 in 2003;		
Shares outstanding: 274,159,411 in 2004 and 266,679,056 in 2003	30	29
Additional paid-in capital	5,865	6,164
Accumulated other comprehensive income (net of tax)	(19)	(16)
Retained earnings	9,240	7,129
Other stockholders' equity, net	741	1,031
Common stock in treasury, at cost: 23,636,786 shares in 2004 and 27,896,229 shares in 2003	(2,282)	(2,208)
Total stockholders' equity	14,920	13,174
Total liabilities and stockholders' equity	$357,168	$312,061

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

IN MILLIONS YEAR ENDED NOVEMBER 30	2004	2003	2002
PREFERRED STOCK			
5.94% Cumulative, Series C:			
Beginning and ending balance	$ 250	$ 250	$ 250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning and ending balance	250	250	250
6.50% Cumulative, Series F:			
Beginning balance	345	–	–
Shares issued	–	345	–
Ending balance	345	345	–
Floating Rate (3% Minimum) Cumulative, Series G:			
Beginning balance	–	–	–
Shares issued	300	–	–
Ending balance	300	–	–
Total preferred stock, ending balance	1,345	1,045	700
COMMON STOCK, PAR VALUE $0.10 PER SHARE			
Beginning balance	29	25	25
Shares issued in connection with Neuberger acquisition	–	3	–
Issued	1	1	–
Ending balance	30	29	25
ADDITIONAL PAID-IN CAPITAL			
Beginning balance	6,164	3,628	3,562
RSUs exchanged for Common Stock	135	(36)	63
Employee stock-based awards	132	107	53
Shares issued to RSU Trust	(717)	(459)	(401)
Tax benefit from the issuance of stock-based awards	468	543	347
Shares issued in connection with Neuberger acquisition	–	2,371	–
Neuberger final purchase price valuation adjustment	(307)	–	–
Other, net	(10)	10	4
Ending balance	5,865	6,164	3,628
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Beginning balance	(16)	(13)	(10)
Translation adjustment, net[1]	(3)	(3)	(3)
Ending balance	$ (19)	$ (16)	$ (13)

[1] Net of income taxes of $(2) in 2004, $(1) in 2003 and $(1) in 2002.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(continued)

IN MILLIONS YEAR ENDED NOVEMBER 30	2004	2003	2002
RETAINED EARNINGS			
Beginning balance	**$ 7,129**	5,608	4,798
Net income	**2,369**	1,699	975
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	**(15)**	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	**(11)**	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	**(18)**	(18)	(18)
6.50% Cumulative, Series F Preferred Stock	**(23)**	(6)	–
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	**(5)**	–	–
Redeemable Voting Preferred Stock	**–**	–	(25)
Common Stock	**(186)**	(128)	(96)
Ending balance	**9,240**	7,129	5,608
COMMON STOCK ISSUABLE			
Beginning balance	**3,353**	2,822	2,933
RSUs exchanged for Common Stock	**(585)**	(425)	(463)
Deferred stock awards granted	**1,182**	957	407
Other, net	**(76)**	(1)	(55)
Ending balance	**3,874**	3,353	2,822
COMMON STOCK HELD IN RSU TRUST			
Beginning balance	**(852)**	(754)	(827)
Shares issued to RSU Trust	**(876)**	(518)	(297)
RSUs exchanged for Common Stock	**401**	444	387
Other, net	**(26)**	(24)	(17)
Ending balance	**(1,353)**	(852)	(754)
DEFERRED STOCK COMPENSATION			
Beginning balance	**(1,470)**	(1,119)	(1,360)
Deferred stock awards granted	**(1,182)**	(999)	(407)
Amortization of deferred compensation, net	**773**	625	570
Other, net	**99**	23	78
Ending balance	**(1,780)**	(1,470)	(1,119)
COMMON STOCK IN TREASURY, AT COST			
Beginning balance	**(2,208)**	(1,955)	(1,362)
Treasury stock purchased	**(2,267)**	(1,508)	(1,510)
RSUs exchanged for Common Stock	**49**	18	–
Employee stock-based awards	**551**	260	219
Shares issued to RSU Trust	**1,593**	977	698
Ending balance	**(2,282)**	(2,208)	(1,955)
Total stockholders' equity	**$14,920**	$13,174	$ 8,942

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS YEAR ENDED NOVEMBER 30	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 2,369**	$ 1,699	$ 975
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**428**	315	258
Deferred tax benefit	**(74)**	(166)	(670)
Tax benefit from the issuance of stock-based awards	**468**	543	347
Amortization of deferred stock compensation	**800**	625	570
September 11th related recoveries, net	**–**	–	(108)
Other real estate reconfiguration charge	**19**	77	128
Regulatory settlement	**–**	–	80
Other adjustments	**85**	(26)	92
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	**(985)**	(297)	486
Securities and other inventory positions owned	**(8,936)**	(14,736)	1,968
Resale agreements, net of repurchase agreements	**(9,467)**	19,504	(18,442)
Securities borrowed, net of securities loaned	**(22,728)**	(25,048)	(6,907)
Other secured borrowings	**(2,923)**	2,700	4,060
Receivables from brokers, dealers and clearing organizations	**1,475**	(1,100)	(320)
Receivables from customers	**(4,432)**	(530)	3,844
Securities and other inventory positions sold but not yet purchased	**23,471**	5,326	17,444
Payables to brokers, dealers and clearing organizations	**(1,362)**	1,280	(1,018)
Payables to customers	**10,158**	10,189	3,646
Accrued liabilities and other payables	**1,094**	1,736	277
Other operating assets and liabilities, net	**(370)**	346	(693)
Net cash provided by (used in) operating activities	**(10,910)**	2,437	6,017
CASH FLOWS FROM FINANCING ACTIVITIES			
Derivative contracts with a financing element	**334**	110	–
Issuance of payments for commercial paper and short-term debt, net	**526**	(38)	(1,623)
Issuance of senior notes	**20,059**	13,193	8,415
Principal payments of senior notes	**(9,828)**	(9,815)	(9,014)
Issuance of subordinated indebtedness	**426**	190	–
Principal payments of subordinated indebtedness	**(992)**	(322)	(715)
Issuance of preferred securities subject to mandatory redemption	**–**	600	–
Issuance of common stock	**108**	57	61
Issuance of preferred stock	**300**	345	–
Purchase of treasury stock	**(2,267)**	(1,508)	(1,510)
Issuance of treasury stock	**551**	260	207
Dividends paid	**(258)**	(178)	(165)
Net cash provided by (used in) financing activities	**8,959**	2,894	(4,344)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and leasehold improvements, net	**(401)**	(451)	(656)
Proceeds from the sale of 3 World Financial Center, net	**–**	–	152
Business acquisitions, net of cash acquired	**(130)**	(657)	(31)
Net cash used in investing activities	**(531)**	(1,108)	(535)
Net change in cash and cash equivalents	**(2,482)**	4,223	1,138
Cash and cash equivalents, beginning of period	**7,922**	3,699	2,561
Cash and cash equivalents, end of period	**$ 5,440**	$ 7,922	$ 3,699

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (IN MILLIONS):

Interest paid totaled $9,534, $8,654 and $10,686 in 2004, 2003 and 2002, respectively.

Income taxes paid totaled $638, $717 and $436 in 2004, 2003 and 2002, respectively.

See Notes to Consolidated Financial Statements.

NOTE 14 CAPITAL REQUIREMENTS

We operate globally through a network of subsidiaries, with several subject to regulatory requirements. In the United States, LBI and Neuberger Berman, LLC ("NBLLC"), as registered broker-dealers, are subject to the Securities and Exchange Commission ("SEC") Rule 15c3-1, the Net Capital Rule, which requires these companies to maintain net capital of not less than the greater of 2% of aggregate debit items arising from customer transactions, as defined, or 4% of funds required to be segregated for customers' regulated commodity accounts, as defined. At November 30, 2004, LBI and NBLLC had regulatory net capital, as defined, of $2.4 billion and $196 million, respectively, which exceeded the minimum requirement by $2.2 billion and $178 million, respectively.

Lehman Brothers International (Europe) ("LBIE"), a United Kingdom registered broker-dealer and subsidiary of Holdings, is subject to the capital requirements of the Financial Services Authority ("FSA") of the United Kingdom. Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At November 30, 2004, LBIE's financial resources of approximately $4.7 billion exceeded the minimum requirement by approximately $1.3 billion. Lehman Brothers Japan Inc.'s Tokyo branch, a regulated broker-dealer, is subject to the capital requirements of the Financial Services Agency and, at November 30, 2004, had net capital of approximately $708 million, which was approximately $261 million in excess of the specified levels required. Lehman Brothers Bank, FSB (the "Bank"), our thrift subsidiary, is regulated by the Office of Thrift Supervision ("OTS"). The Bank exceeds all regulatory capital requirements and is considered well capitalized by the OTS. Certain other non-U.S. subsidiaries are subject to various securities, commodities and banking regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. At November 30, 2004, these other subsidiaries were in compliance with their applicable local capital adequacy requirements. In addition, our "AAA" rated derivatives subsidiaries, Lehman Brothers Financial Products Inc. ("LBFP") and Lehman Brothers Derivative Products Inc. ("LBDP"), have established certain capital and operating restrictions that are reviewed by various rating agencies. At November 30, 2004, LBFP and LBDP each had capital that exceeded the requirements of the rating agencies.

The regulatory rules referred to above, and certain covenants contained in various debt agreements, may restrict Holdings' ability to withdraw capital from its regulated subsidiaries, which in turn could limit its ability to pay dividends to shareholders. At November 30, 2004, approximately $6.0 billion of net assets of subsidiaries were restricted as to the payment of dividends to Holdings.

NOTE 15 EARNINGS PER COMMON SHARE

Earnings per common share was calculated as follows:

EARNINGS PER COMMON SHARE

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2004	2003	2002
NUMERATOR:			
Net income	**$2,369**	$1,699	$ 975
Preferred stock dividends	**72**	50	69
Numerator for basic earnings per share—net income applicable to common stock	**$2,297**	$1,649	$ 906
DENOMINATOR:			
Denominator for basic earnings per share—weighted-average common shares	**274.7**	245.7	245.4
Effect of dilutive securities:			
Employee stock options	**13.8**	12.2	12.4
Restricted stock units	**2.2**	2.0	3.4
Dilutive potential common shares	**16.0**	14.2	15.8
Denominator for diluted earnings per share—weighted-average common and dilutive potential common shares[1]	**290.7**	259.9	261.2
Basic earnings per share	**$ 8.36**	$ 6.71	$ 3.69
Diluted earnings per share	**$ 7.90**	$ 6.35	$ 3.47
[1] Anti-dilutive options and restricted stock units excluded from the calculations of diluted earnings per share	2.0	8.0	10.0

NOTE 16 INCENTIVE PLANS

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "ESPP") allowed employees to purchase Common Stock at a 15% discount from market value, with a maximum of $25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees was 12.0 million. At November 30, 2004 and 2003, 6.3 million shares and 6.1 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP. On June 30, 2004, the ESPP expired following the completion of its 10-year term as approved by shareholders.

1994 Management Ownership Plan

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2004, RSU, PSU and stock option awards with respect to 33.1 million shares of Common Stock have been made under the 1994 Plan, of which 3.1 million are outstanding and 30.0 million have been converted to freely transferable Common Stock. On May 31, 2004 the 1994 Plan expired following the completion of its 10-year term.

1996 Management Ownership Plan

The 1996 Management Ownership Plan (the "1996 Plan"), under which awards similar to those of the 1994 Plan may be granted, provides for up to 42.0 million shares of Common Stock to be subject to awards. At November 30, 2004, RSU, PSU and stock option awards with respect to 38.2 million shares of Common Stock have been made under the 1996 Plan of which 14.9 million are outstanding and 23.3 million have been converted to freely transferable Common Stock.

Employee Incentive Plan

The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors to issue up to 246.0 million shares of Common Stock that may be subject to awards. At November 30, 2004 awards with respect to 220.2 million shares of Common Stock have been made under the EIP of which 115.3 million are outstanding and 104.9 million have been converted to freely transferable Common Stock.

1999 Long Term Incentive Plan

The 1999 Neuberger Berman Inc. Long-Term Incentive Plan (the "LTIP") provides for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of Common Stock that may be issued under the LTIP may not exceed 7.7 million. At November 30, 2004, awards with respect to approximately 6.7 million shares of Common Stock have been made under the LTIP, of which approximately 5.2 million restricted shares, RSUs and stock options are outstanding and 1.5 million have been converted to freely transferable Common Stock.

1999 Directors Stock Incentive Plan

The 1999 Neuberger Berman Inc. Directors Stock Incentive Plan (the "DSIP") provided for the grant of stock options or restricted stock to non-employee members of Neuberger's board of directors. Non-employee directors could elect to exchange a portion of their annual cash retainer paid by Neuberger for services rendered as a director for restricted stock. At November 30, 2004, awards with respect to approximately 62,000 shares have been made under the DSIP of which approximately 52,000 stock option awards are outstanding and approximately 10,000 have been converted to freely transferable Common Stock. We do not intend to grant additional awards from the DSIP.

Wealth Accumulation Plan

The Neuberger Berman Inc. Wealth Accumulation Plan (the "WAP") provides that on an annual basis, employees who receive commissions and other direct pay and those eligible for a bonus may elect to defer a portion of their compensation. In each case, up to 20% of total compensation may be deferred with a maximum deferral of up to $500,000, provided that employees who receive an annual bonus may, in any event, defer no more than the full amount of the bonus. Amounts deferred by employees are used to acquire, on a pretax basis, the Common Stock at a 25% discount from market value. Any stock so acquired is restricted with respect to transfer or sale and vests three years after the grant date. Certain benefits of ownership, including the payment of any dividends declared during the restricted period, belong to the employees. At November 30, 2004, awards with respect to approximately 155,000 shares of Common Stock have been made under the WAP of which approximately 74,000 shares are outstanding and approximately 81,000 have been converted to freely transferable Common Stock. We do not intend to allow further deferrals under the WAP and the WAP will terminate on the last day on which any restricted stock outstanding under the WAP becomes vested.

Restricted Stock Units

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees associated with the RSU awards. We measure compensation cost for RSUs based on the market value of our Common Stock at the grant date for awards granted prior to 2004 and based on the market value of our Common Stock at the grant date less a discount for sale restriction subsequent to the vesting date for awards granted in 2004. We amortize this amount to expense over the applicable service periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years from the grant date. We accrue a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on our Common Stock.

The following table summarizes RSUs outstanding under stock-based incentive plans:

RESTRICTED STOCK UNITS

	2004	2003	2002
Balance, beginning of year	**64,343,313**	69,338,068	76,457,071
Granted	**14,899,012**	14,796,772[1]	9,178,667
Canceled	**(1,276,002)**	(1,447,319)	(1,750,479)
Exchanged for stock without restrictions	**(13,723,930)**	(18,344,208)	(14,547,191)
Balance, end of year	**64,242,393**	64,343,313	69,338,068
Shares held in RSU Trust	**(38,861,068)**	(33,408,893)	(36,641,395)
RSUs outstanding, net of shares held in RSU trust	**25,381,325**	30,934,420	32,696,673

[1] Includes approximately 1.7 million RSUs granted in 2003 related to our acquisition of Neuberger. See Note 6 to the Consolidated Financial Statements for additional information about the Neuberger acquisition.

We have repurchased approximately 40 million shares to offset the future delivery requirements associated with the above RSUs. These shares either were transferred to the RSU Trust or are held as Treasury stock. Of the RSUs outstanding at November 30, 2004, approximately 39.9 million were amortized and included in basic and diluted earnings per share, approximately 9.7 million will be amortized during 2005, and the remainder will be amortized subsequent to November 30, 2005. See Note 13 to the Consolidated Financial Statements for additional information.

Included in the previous table are PSUs we awarded to certain senior officers. The number of PSUs that may be earned is dependent on achieving certain performance levels within predetermined performance periods. During the performance period, these PSUs are accounted for as variable awards. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs that then vest in three or more years. At November 30, 2004, approximately 11.2 million PSUs had been awarded, of which 6.4 million remained outstanding, subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Stock Options

The following table summarizes stock option activity for the years ended November 30, 2004, 2003 and 2002:

STOCK OPTION ACTIVITY

	Options	Weighted-Average Exercise Price	Expiration Dates
Balance, November 30, 2001	68,394,214	$37.53	1/02–11/11
Granted	26,211,500	$54.94	
Exercised	(9,652,041)	$25.02	
Canceled	(1,413,181)	$43.20	
Balance, November 30, 2002	83,540,492	$44.21	11/03–11/12
Granted[1]	15,536,462	$66.98	
Exercised[1]	(10,595,469)	$28.08	
Canceled[1]	(1,734,835)	$46.63	
Balance, November 30, 2003	86,746,650	$50.21	12/03–11/13
Granted	5,423,596	$80.74	
Exercised	(17,167,352)	$36.36	
Canceled	(1,459,299)	$56.48	
Balance, November 30, 2004	73,543,595	$55.57	12/04–11/14

[1] Includes approximately 4.3 million stock options granted, 0.3 million stock options exercised, and 0.1 million stock options canceled in 2003 related to our acquisition of Neuberger. See Note 6 to the Consolidated Financial Statements for additional information about the Neuberger acquisition.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. (the "Company") as of November 30, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. at November 30, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lehman Brothers Holdings Inc.'s internal control over financial reporting as of November 30, 2005, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

New York, New York
February 13, 2006

GS-17

CONSOLIDATED STATEMENT OF INCOME

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2005	2004	2003
REVENUES			
Principal transactions	**$ 7,811**	$ 5,699	$ 4,272
Investment banking	**2,894**	2,188	1,722
Commissions	**1,728**	1,537	1,210
Interest and dividends	**19,043**	11,032	9,942
Asset management and other	**944**	794	141
Total revenues	**32,420**	21,250	17,287
Interest expense	**17,790**	9,674	8,640
Net revenues	**14,630**	11,576	8,647
NON-INTEREST EXPENSES			
Compensation and benefits	**7,213**	5,730	4,318
Technology and communications	**834**	764	598
Brokerage and clearance fees	**503**	453	367
Occupancy	**490**	421	319
Professional fees	**282**	252	158
Business development	**234**	211	149
Other	**245**	208	125
Real estate reconfiguration charge	**–**	19	77
Total non-personnel expenses	**2,588**	2,328	1,793
Total non-interest expenses	**9,801**	8,058	6,111
Income before taxes and dividends on trust preferred securities	**4,829**	3,518	2,536
Provision for income taxes	**1,569**	1,125	765
Dividends on trust preferred securities	**–**	24	72
Net income	**$ 3,260**	$ 2,369	$ 1,699
Net income applicable to common stock	**$ 3,191**	$ 2,297	$ 1,649
EARNINGS PER SHARE			
Basic	**$ 11.47**	$ 8.36	$ 6.71
Diluted	**$ 10.87**	$ 7.90	$ 6.35

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

IN MILLIONS NOVEMBER 30	2005	2004
ASSETS		
Cash and cash equivalents	$ 4,900	$ 5,440
Cash and securities segregated and on deposit for regulatory and other purposes	5,744	4,085
Financial instruments and other inventory positions owned:		
(includes $36,369 in 2005 and $27,418 in 2004 pledged as collateral)	177,438	144,468
Securities received as collateral	4,975	4,749
Collateralized agreements:		
Securities purchased under agreements to resell	106,209	95,535
Securities borrowed	78,455	74,294
Receivables:		
Brokers, dealers and clearing organizations	7,454	3,400
Customers	12,887	13,241
Others	1,302	2,122
Property, equipment and leasehold improvements		
(net of accumulated depreciation and amortization of $1,448 in 2005		
and $1,187 in 2004)	2,885	2,988
Other assets	4,558	3,562
Identifiable intangible assets and goodwill		
(net of accumulated amortization of $257 in 2005 and $212 in 2004)	3,256	3,284
Total assets	$410,063	$357,168

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIA[L C]ONDITION

(continued)

IN MILLIONS, EXCEPT PER SHARE DATA NOVEMBER 30	2005	2004
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings	$ 2,941	$ 2,857
Financial instruments and other inventory positions sold but not yet purchased	110,577	96,281
Obligation to return securities received as collateral	4,975	4,749
Collateralized financings:		
Securities sold under agreements to repurchase	116,155	105,956
Securities loaned	13,154	14,158
Other secured borrowings	23,116	11,621
Payables:		
Brokers, dealers and clearing organizations	1,870	1,705
Customers	47,210	37,824
Accrued liabilities and other payables	10,962	10,611
Long-term borrowings	62,309	56,486
Total liabilities	393,269	342,248
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock	1,095	1,345
Common stock, $0.10 par value;		
Shares authorized: 600,000,000 in 2005 and 2004;		
Shares issued: 302,668,973 in 2005 and 297,796,197 in 2004;		
Shares outstanding: 271,437,103 in 2005 and 274,159,411 in 2004	30	30
Additional paid-in capital	6,314	5,865
Accumulated other comprehensive income (net of tax)	(16)	(19)
Retained earnings	12,198	9,240
Other stockholders' equity, net	765	741
Common stock in treasury, at cost: 31,231,870 shares in 2005 and 23,636,786 shares in 2004	(3,592)	(2,282)
Total common stockholders' equity	15,699	13,575
Total stockholders' equity	16,794	14,920
Total liabilities and stockholders' equity	$410,063	$357,168

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

IN MILLIONS YEAR ENDED NOVEMBER 30	2005	2004	2003
PREFERRED STOCK			
5.94% Cumulative, Series C:			
Beginning and ending balance	$ 250	$ 250	$ 250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	250	250	250
Redemptions	(250)	–	–
Ending balance	–	250	250
6.50% Cumulative, Series F:			
Beginning balance	345	345	–
Issuances	–	–	345
Ending balance	345	345	345
Floating Rate (3% Minimum) Cumulative, Series G:			
Beginning balance	300	–	–
Issuances	–	300	–
Ending balance	300	300	–
Total preferred stock, ending balance	1,095	1,345	1,045
COMMON STOCK, PAR VALUE $0.10 PER SHARE			
Beginning balance	30	29	25
Issuances in connection with Neuberger acquisition	–	–	3
Other Issuances	–	1	1
Ending balance	30	30	29
ADDITIONAL PAID-IN CAPITAL			
Beginning balance	5,865	6,164	3,628
RSUs exchanged for Common Stock	184	135	(36)
Employee stock-based awards	(760)	(585)	(352)
Tax benefit from the issuance of stock-based awards	1,005	468	543
Share issuances in connection with Neuberger acquisition	–	–	2,371
Neuberger final purchase price adjustment	–	(307)	–
Other, net	20	(10)	10
Ending balance	6,314	5,865	6,164
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Beginning balance	(19)	(16)	(13)
Translation adjustment, net (1)	3	(3)	(3)
Ending balance	$ (16)	$ (19)	$ (16)

(1) Net of income taxes of $1 in 2005, $(2) in 2004 and $(1) in 2003.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(continued)

IN MILLIONS YEAR ENDED NOVEMBER 30	2005	2004	2003
RETAINED EARNINGS			
Beginning balance	**$ 9,240**	$ 7,129	$ 5,608
Net income	**3,260**	2,369	1,699
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	**(15)**	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	**(11)**	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	**(9)**	(18)	(18)
6.50% Cumulative, Series F Preferred Stock	**(22)**	(23)	(6)
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	**(12)**	(5)	–
Common Stock	**(233)**	(186)	(128)
Ending balance	**12,198**	9,240	7,129
COMMON STOCK ISSUABLE			
Beginning balance	**3,874**	3,353	2,822
RSUs exchanged for Common Stock	**(832)**	(585)	(425)
Deferred stock awards granted	**1,574**	1,182	957
Other, net	**(68)**	(76)	(1)
Ending balance	**4,548**	3,874	3,353
COMMON STOCK HELD IN RSU TRUST			
Beginning balance	**(1,353)**	(852)	(754)
Employee stock-based awards	**(676)**	(876)	(518)
RSUs exchanged for Common Stock	**549**	401	444
Other, net	**(30)**	(26)	(24)
Ending balance	**(1,510)**	(1,353)	(852)
DEFERRED STOCK COMPENSATION			
Beginning balance	**(1,780)**	(1,470)	(1,119)
Deferred stock awards granted	**(1,574)**	(1,182)	(999)
Amortization of deferred compensation, net	**988**	773	625
Other, net	**93**	99	23
Ending balance	**(2,273)**	(1,780)	(1,470)
COMMON STOCK IN TREASURY, AT COST			
Beginning balance	**(2,282)**	(2,208)	(1,955)
Repurchases of Common Stock	**(2,994)**	(1,693)	(967)
Shares reacquired from employee transactions	**(1,163)**	(574)	(541)
RSUs exchanged for Common Stock	**99**	49	18
Employee stock-based awards	**2,748**	2,144	1,237
Ending balance	**(3,592)**	(2,282)	(2,208)
Total stockholders' equity	**$16,794**	$14,920	$13,174

See Notes to Consolidated Financial Statements.

IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

Identifiable intangible assets with finite lives are amortized over their expected useful lives. Identifiable intangible assets with indefinite lives and goodwill are not amortized. Instead, these assets are evaluated at least annually for impairment. Goodwill is reduced upon the recognition of certain acquired net operating loss carryforward benefits.

EQUITY-BASED COMPENSATION

SFAS No. 123, *"Accounting for Stock-Based Compensation"*, ("SFAS 123") established financial accounting and reporting standards for equity-based employee and non-employee compensation. SFAS 123 permits companies to account for equity-based employee compensation using the intrinsic-value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees"*, ("APB 25"), or using the fair-value method prescribed by SFAS 123. Through November 30, 2003, we followed APB 25 and its related interpretations to account for equity-based employee compensation. Accordingly, no compensation expense was recognized for stock option awards because the exercise price equaled or exceeded the market value of our common stock on the grant date.

In 2004, we adopted the fair value recognition provisions of SFAS 123 as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation–Transition and Disclosure, an amendment of FASB Statement No. 123"*, using the prospective adoption method. Under this method of adoption, compensation expense is recognized based on the fair value of stock options and RSUs granted for 2004 and future years over the related service periods. Stock options granted for the years ended November 30, 2003 and before continue to be accounted for under APB 25. Adoption of SFAS 123 also required us to change the fair value measurement method for RSUs. Under SFAS 123, the fair value measurement of an RSU must include a discount from the market value of an unrestricted share of common stock on the RSU grant date for selling restrictions subsequent to the vesting date. RSUs granted prior to 2004 continue to be measured in accordance with APB 25 and, accordingly, a discount from the market value of an unrestricted share of common stock on the RSU grant date is not recognized for selling restrictions subsequent to the vesting date. Under both APB 25 and SFAS 123, compensation expense for RSUs with future service requirements is recognized over the relevant stated vesting periods of the awards. See Accounting Developments below for a discussion of SFAS No. 123(R), *"Share-Based Payment"* ("SFAS 123(R)"), which we are required to adopt on December 1, 2005.

Our equity-based employee award plans provide for the accrual of non-cash dividend equivalents on outstanding RSUs. These dividend equivalents on RSUs are charged to retained earnings as declared.

The following table illustrates the effect on net income and earnings per share for the years ended November 30, 2005, 2004, and 2003 if the fair-value-based retroactive method prescribed by SFAS 123 had been applied to all awards granted prior to fiscal year 2004:

EQUITY BASED COMPENSATION–PRO FORMA NET INCOME AND EARNINGS PER SHARE

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2005	2004	2003
Net income, as reported	$ 3,260	$2,369	$1,699
Add: stock-based employee compensation expense included in reported net income, net of related tax effect	611	464	362
Deduct: stock-based employee compensation expense determined under the fair-value-based method for all awards, net of related tax effect	(694)	(623)	(534)
Pro forma net income	$ 3,177	$2,210	$1,527
Earnings per share:			
Basic, as reported	$ 11.47	$ 8.36	$ 6.71
Basic, pro forma	$ 11.17	$ 7.78	$ 6.01
Diluted, as reported	$ 10.87	$ 7.90	$ 6.35
Diluted, pro forma	$ 10.64	$ 7.42	$ 5.77

We used the Black-Scholes option-pricing model to measure the fair value of the stock options granted during 2005 and 2004, as well as for the measurement of fair value utilized to quantify the pro forma effects on net income and earnings per share of the fair value of stock options outstanding during 2005, 2004 and 2003. Based on the results of the model, the weighted average fair values of the stock options granted were $26.48, $19.26, and $22.02 for 2005, 2004 and 2003, respectively. The weighted average assumptions used for 2005, 2004 and 2003 were as follows:

WEIGHTED AVERAGE BLACK-SCHOLES ASSUMPTIONS

YEAR ENDED NOVEMBER 30	2005	2004	2003
Risk-free interest rate	**3.97%**	3.04%	3.10%
Expected volatility	**23.73%**	28.09%	35.00%
Dividends per share	**$0.80**	$0.64	$0.48
Expected life	**3.9 years**	3.7 years	4.6 years

The increase in the weighted average fair value price of stock options granted in 2005 compared with 2004 resulted primarily from the higher price of the Company's stock on the grant dates. The expected volatility declined due to lower volatility in our stock over the historical and future periods the Company uses to determine volatility.

EARNINGS PER SHARE

We compute earnings per share ("EPS") in accordance with SFAS No. 128, *"Earnings per Share"*. Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding, which includes restricted stock units for which service has been provided. Diluted EPS includes the components of basic EPS and also includes the dilutive effects of restricted stock units for which service has not yet been provided and employee stock options. See Notes 13 and 14 to the Consolidated Financial Statements for additional information about EPS.

INCOME TAXES

We account for income taxes in accordance with SFAS No. 109, *"Accounting for Income Taxes"*, ("SFAS 109"). We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years and for tax loss carryforwards. We record a valuation allowance to reduce deferred tax assets to an amount that more likely than not will be realized. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years. Contingent liabilities related to income taxes are recorded when probable and reasonably estimable in accordance with SFAS No. 5, *"Accounting for Contingencies"*.

CASH EQUIVALENTS

Cash equivalents include highly liquid investments not held for resale with maturities of three months or less when we acquire them.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of foreign subsidiaries having non-U.S.-dollar functional currencies are translated at exchange rates at the Consolidated Statement of Financial Condition date. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars, net of hedging gains or losses and taxes, are included in Accumulated other comprehensive income, a component of Stockholders' equity. Gains or losses resulting from foreign currency transactions are included in the Consolidated Statement of Income.

ACCOUNTING DEVELOPMENTS

FSP FAS 109-2 In December 2004, the FASB issued FSP FAS 109-2 *"Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004"*, ("FSP FAS 109-2") which provides guidance on the accounting implications of the American Jobs Creation Act of 2004 (the "Act") related to the one-time tax benefit for the repatriation of foreign earnings. The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned outside the U.S. by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. We have reviewed the Act to determine the implications of repatriating all or a portion of our accumulated non-U.S. retained earnings pool and determined that we would not generate any material tax benefits associated with the Act, as any amounts able to be repatriated under the Act would not be material.

SFAS 123(R) In December 2004, the FASB issued SFAS No. 123(R), *"Share-Based Payment"*, ("SFAS 123(R)"), which we will adopt on December 1, 2005. SFAS 123(R) requires public companies to recognize expense in the income statement for the grant-date fair value of awards of equity instruments granted to employees. Expense is to be recognized over the period during which employees are required to provide service.

SFAS 123(R) also clarifies and expands the guidance in SFAS 123 in several areas, including measuring fair value and attributing compensation cost to reporting periods. Under the modified prospective transition method applied in the adoption of SFAS 123(R), compensation cost will be recognized for the unamortized portion of outstanding awards granted prior to the adoption of SFAS 123. Upon adoption of SFAS 123(R) on December 1, 2005, we will recognize an after-tax gain of approximately $47 million as the cumulative effect of a change

tion price of $500 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series C Preferred Stock beginning on May 31, 2008. The $250 million redemption value of the shares outstanding at November 30, 2005 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

Series D On July 21, 1998, Holdings issued 4,000,000 Depositary Shares, each representing 1/100th of a share of 5.67% Cumulative Preferred Stock, Series D ("Series D Preferred Stock"), $1.00 par value. The shares of Series D Preferred Stock have a redemption price of $5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series D Preferred Stock beginning on August 31, 2008. The $200 million redemption value of the shares outstanding at November 30, 2005 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

Series E On March 28, 2000, Holdings issued 5,000,000 Depositary Shares, each representing 1/100th of a share of Fixed/Adjustable Rate Cumulative Preferred Stock, Series E ("Series E Preferred Stock"), $1.00 par value. The initial cumulative dividend rate on the Series E Preferred Stock was 7.115% per annum through May 31, 2005. On May 31, 2005, Holdings redeemed all of our issued and outstanding shares, together with accumulated and unpaid dividends.

Series F On August 20, 2003, Holdings issued 13,800,000 Depositary Shares, each representing 1/100th of a share of 6.50% Cumulative Preferred Stock, Series F ("Series F Preferred Stock"), $1.00 par value. The shares of Series F Preferred Stock have a redemption price of $2,500 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series F Preferred Stock beginning on August 31, 2008. The $345 million redemption value of the shares outstanding at November 30, 2005 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

Series G On January 30, 2004 and August 16, 2004 Holdings issued 5,200,000 and 6,800,000, respectively, Depositary Shares, each representing 1/100th of a share of Holdings' Floating Rate Cumulative Preferred Stock, Series G ("Series G Preferred Stock"), $1.00 par value, for a total of $130 million and $170 million, respectively. Dividends on the Series G Preferred Stock are payable at a floating rate per annum of one-month LIBOR plus 0.75%, with a floor of 3.0% per annum. The Series G Preferred Stock has a redemption price of $2,500 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series G Preferred Stock beginning on February 15, 2009. The $300 million redemption value of the shares outstanding at November 30, 2005 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

The Series C, D, F and G Preferred Stock have no voting rights except as provided below or as otherwise from time to time required by law. If dividends payable on any of the Series C, D, F or G Preferred Stock or on any other equally-ranked series of preferred stock have not been paid for six or more quarters, whether or not consecutive, the authorized number of directors of the Company will automatically be increased by two. The holders of the Series C, D, F or G Preferred Stock will have the right, with holders of any other equally-ranked series of preferred stock that have similar voting rights and on which dividends likewise have not been paid, voting together as a class, to elect two directors to fill such newly created directorships until the dividends in arrears are paid.

COMMON STOCK

Dividends declared per common share were $0.80, $0.64 and $0.48 in 2005, 2004 and 2003, respectively. During the years ended November 30, 2005, 2004 and 2003, we repurchased or acquired shares of our common stock at an aggregate cost of approximately $4.2 billion, $2.3 billion and $1.5 billion, respectively, or $103.17, $78.20, and $65.22 per share, respectively. These shares were acquired in the open market and from employees who tendered mature shares to pay for the exercise cost of stock options or for statutory tax withholding obligations on RSU issuances or option exercises.

Changes in the number of shares of common stock outstanding are as follows:

COMMON STOCK

NOVEMBER 30	2005	2004	2003
Shares outstanding, beginning of period	**274,159,411**	266,679,056	231,131,043
Exercise of stock options and other share issuances	**26,571,357**	18,474,422	11,538,125
Shares issued to the RSU Trust	**11,000,000**	18,000,000	14,000,000
Shares issued in connection with the Neuberger acquisition	**–**	–	33,130,804
Treasury stock acquisitions	**(40,293,665)**	(28,994,067)	(23,120,916)
Shares outstanding, end of period	**271,437,103**	274,159,411	266,679,056

NOTE 13 EARNINGS PER SHARE

Earnings per share was calculated as follows:

EARNINGS PER SHARE

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2005	2004	2003
NUMERATOR:			
Net income	**$3,260**	$2,369	$1,699
Preferred stock dividends	**69**	72	50
Numerator for basic earnings per share–net income applicable to common stock	**$3,191**	$2,297	$1,649
DENOMINATOR:			
Denominator for basic earnings per share–weighted average common shares	**278.2**	274.7	245.7
Effect of dilutive securities:			
Employee stock options	**12.7**	13.8	12.2
Restricted stock units	**2.7**	2.2	2.0
Dilutive potential common shares	**15.4**	16.0	14.2
Denominator for diluted earnings per share–weighted average common and dilutive potential common shares (1)	**293.6**	290.7	259.9
Basic earnings per share	**$11.47**	$ 8.36	$ 6.71
Diluted earnings per share	**$10.87**	$ 7.90	$ 6.35
(1) Anti-dilutive options and restricted stock units excluded from the calculations of diluted earnings per share.	4.3	2.0	8.0

NOTE 14 EMPLOYEE INCENTIVE PLANS

In 2004 the Company adopted the fair value recognition provisions of SFAS 123 using the prospective adoption method. The Company's adoption of SFAS 123 on a prospective basis in 2004 resulted in a change in measurement for employee stock awards. See Note 1 for a further discussion.

EMPLOYEE STOCK PURCHASE PLAN

On June 30, 2004, the Employee Stock Purchase Plan (the "ESPP") expired following the completion of its 10-year term as approved by shareholders. The ESPP allowed employees to purchase Common Stock at a 15% discount from market value, with a maximum of $25,000 in annual aggregate purchases by any one individual. At November 30, 2004 6.3 million shares of Common Stock had cumulatively been purchased by eligible employees through the ESPP.

1994 MANAGEMENT OWNERSHIP PLAN

On May 31, 2004 the Lehman Brothers Holdings Inc. Management Ownership Plan (the "1994 Plan") expired following the completion of its 10-year term. The 1994 Plan provided for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. At November 30, 2005, RSU, PSU and stock option awards with respect to 33.1 million shares of Common Stock have been made under the 1994 Plan, of which 3.1 million are outstanding and 30.0 million have been converted to freely transferable Common Stock.

1996 MANAGEMENT OWNERSHIP PLAN

The 1996 Management Ownership Plan (the "1996 Plan"), under which awards similar to those of the 1994 Plan may be granted, provides for up to 42.0 million shares of Common Stock to be subject to awards. At November 30, 2005, RSU, PSU and stock option awards with respect to 39.5 million shares of Common Stock have been made under the 1996 Plan of which 9.5 million are outstanding and 30.0 million have been converted to freely transferable Common Stock.

EMPLOYEE INCENTIVE PLAN

The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors to issue up to 246.0 million shares of Common Stock that may be subject to awards. At November 30, 2005 awards with respect to 231.9 million shares of Common Stock have been made under the EIP of which 93.0 million are outstanding and 138.9 million have been converted to freely transferable Common Stock.

STOCK INCENTIVE PLAN

The Stock Incentive Plan ("SIP") has provisions similar to the 1994 Plan, the 1996 Plan and the EIP, and authorization from the Board of Directors to issue up to 10.0 million shares of Common Stock that may be subject to awards. At November 30, 2005 awards with respect to 2.3 million shares of Common Stock have been made under the SIP of which 2.3 million are outstanding.

1999 LONG-TERM INCENTIVE PLAN

The 1999 Neuberger Berman Inc. Long-Term Incentive Plan (the "LTIP") provided for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of Common Stock that may be issued under the LTIP may not exceed 7.7 million. At November 30, 2005, awards with respect to approximately 6.7 million shares of Common Stock have been made under the LTIP, of which approximately 3.7 million restricted shares, RSUs and stock options are outstanding and 3.0 million have been converted to freely transferable Common Stock.

1999 DIRECTORS STOCK INCENTIVE PLAN

The 1999 Neuberger Berman Inc. Directors Stock Incentive Plan (the "DSIP") provided for the grant of stock options or restricted stock to non-employee members of Neuberger's board of directors. Non-employee directors could elect to exchange a portion of their annual cash retainer paid by Neuberger for services rendered as a director for restricted stock. At November 30, 2004, awards with respect to approximately 62,000 shares have been made under the DSIP of which all shares have been converted to freely transferable Common Stock. We do not intend to grant additional awards from the DSIP.

RESTRICTED STOCK UNITS

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees associated with the RSU awards. For awards granted prior to 2004, we measure compensation cost for RSUs based on the market value of our Common Stock at the grant date in accordance with APB 25. For awards granted beginning in 2004 we measure compensation cost based on the market value of our Common Stock at the grant date less a discount for sale restrictions subsequent to the vesting date in accordance with our adoption of SFAS 123 on a prospective basis. RSUs granted in each of the years presented contain selling restrictions subsequent to the vesting date. We amortize the RSU awards over the applicable service periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years from the grant date. We accrue a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on our Common Stock.

The following table summarizes RSUs outstanding under stock-based incentive plans:

RESTRICTED STOCK UNITS

	2005	2004	2003
Balance, beginning of year	**64,242,393**	64,343,313	69,338,068
Granted	**13,965,142**	14,899,012	14,796,772 [1]
Canceled	**(1,512,954)**	(1,276,002)	(1,447,319)
Exchanged for stock without restrictions	**(16,485,744)**	(13,723,930)	(18,344,208)
Balance, end of year	**60,208,837**	64,242,393	64,343,313
Shares held in RSU Trust	**(34,558,884)**	(38,861,068)	(33,408,893)
RSUs outstanding, net of shares held in RSU trust	**25,649,953**	25,381,325	30,934,420

(1) Includes approximately 1.7 million RSUs granted in 2003 related to our acquisition of Neuberger. See Note 5 to the Consolidated Financial Statements for additional information about the Neuberger acquisition.

Of the RSUs outstanding at November 30, 2005, approximately 36 million were amortized and included in basic and diluted earnings per share, approximately 10 million will be amortized during 2006, and the remainder will be amortized subsequent to November 30, 2006. See Note 11 to the Consolidated Financial Statements for additional information.

Included in the previous table are PSUs awarded to certain senior officers prior to 2004. The number of PSUs that may be earned is dependent on achieving certain performance levels within predetermined performance periods. During the performance period, these PSUs are accounted for as variable awards. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs that then vest in three or more years. At November 30, 2005, approximately 11.2 million PSUs had been awarded, of which 6.0 million remained outstanding, subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

STOCK OPTIONS

The following table summarizes stock option activity for the years ended November 30, 2005, 2004 and 2003:

STOCK OPTION ACTIVITY

	Options	Weighted Average Exercise Price	Expiration Dates
Balance, November 30, 2002	83,540,492	$ 44.21	11/03–11/12
Granted [1]	15,536,462	$ 66.98	
Exercised [1]	(10,595,469)	$ 28.08	
Canceled [1]	(1,734,835)	$ 46.63	
Balance, November 30, 2003	86,746,650	$ 50.21	12/03–11/13
Granted	5,423,596	$ 80.74	
Exercised	(17,167,352)	$ 36.36	
Canceled	(1,459,299)	$ 56.48	
Balance, November 30, 2004	73,543,595	$ 55.57	12/04–11/14
Granted	3,524,013	$111.53	
Exercised	(25,537,742)	$ 48.76	
Canceled	(654,703)	$ 66.76	
Balance, November 30, 2005	50,875,163	$ 62.72	12/05–11/15

(1) Includes approximately 4.3 million stock options granted, 0.3 million stock options exercised, and 0.1 million stock options canceled in 2003 related to our acquisition of Neuberger. See Note 5 to the Consolidated Financial Statements for additional information about the Neuberger acquisition.

The exercise price for all stock options awarded has been equal to the market price of Common Stock on the day of grant. The table below provides further details related to stock options outstanding at November 30, 2005.

STOCK OPTIONS

	Options Outstanding			Options Exercisable		
RANGE OF EXERCISE PRICES	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
$20.00–$29.99	1,797,889	$ 20.69	3.01	1,797,889	$ 20.69	3.01
$30.00–$39.99	1,377,796	$ 37.16	4.03	1,377,796	$ 37.16	4.03
$40.00–$49.99	8,295,915	$ 47.78	5.05	5,162,629	$ 48.47	4.50
$50.00–$59.99	14,324,484	$ 54.03	6.13	8,629,809	$ 54.43	5.64
$60.00–$69.99	6,539,260	$ 63.49	4.58	3,285,498	$ 63.58	3.19
$70.00–$79.99	11,545,366	$ 71.57	5.98	5,840,136	$ 71.70	4.47
$80.00–$89.99	4,777,248	$ 85.73	5.02	225,460	$ 85.50	5.33
$90.00–$99.99	22,500	$ 93.30	9.34	–	n/a	n/a
$100.00–$149.99	2,194,705	$127.20	6.37	–	n/a	n/a
	50,875,163	$ 62.72	5.46	26,319,217	$ 55.29	4.58

RESTRICTED STOCK

In connection with the 2003 Neuberger acquisition, we issued approximately 806,000 shares of restricted Common Stock to replace outstanding shares of Neuberger restricted Common Stock. During 2005, we awarded approximately 7,767 shares of our restricted Common Stock under the LTIP.

The following table summarizes restricted stock activity for the years ended November 30, 2005 and 2004:

RESTRICTED STOCK

	2005	2004
Balance, beginning of year	770,846	805,587
Granted	7,767	223,889
Canceled	(18,723)	(27,325)
Exchanged for stock without restrictions	(238,702)	(231,305)
Balance, end of year	521,188	770,846

Total compensation cost for stock-based awards recognized during 2005, 2004 and 2003 was approximately $1,055 million, $800 million and $625 million, respectively.

NOTE 15 EMPLOYEE BENEFIT PLANS

We provide both funded and unfunded noncontributory defined benefit pension plans for the majority of our employees worldwide. In addition, we provide certain other postretirement benefits, primarily health care and life insurance, to eligible employees. We use a November 30 measurement date for the majority of our plans. The following tables summarize these plans:

DEFINED BENEFIT PLANS

IN MILLIONS NOVEMBER 30	Pension Benefits U.S. 2005	Pension Benefits U.S. 2004	Pension Benefits Non-U.S. 2005	Pension Benefits Non-U.S. 2004	Postretirement Benefits 2005	Postretirement Benefits 2004
CHANGE IN BENEFIT OBLIGATION						
Benefit obligation at beginning of year	$ 947	$ 819	$ 377	$ 278	$ 69	$ 77
Service cost	40	33	8	6	2	2
Interest cost	56	50	19	16	3	4
Plan amendment	5	11	–	–	–	–
Actuarial loss (gain)	(2)	59	41	51	(9)	(9)
Benefits paid	(29)	(25)	(7)	(6)	(5)	(5)
Foreign currency exchange rate changes	–	–	(39)	32	–	–
Benefit obligation at end of year	1,017	947	399	377	60	69
CHANGE IN PLAN ASSETS						
Fair value of plan assets at beginning of year	887	825	357	294	–	–
Actual return on plan assets, net of expenses	72	72	59	24	–	–
Employer contribution	100	15	5	13	5	–
Benefits paid	(29)	(25)	(7)	(6)	(5)	–
Foreign currency exchange rate changes	–	–	(36)	32	–	–
Fair value of plan assets at end of year	1,030	887	378	357	–	–
Funded (underfunded) status	13	(60)	(21)	(20)	(60)	(69)
Unrecognized net actuarial loss (gain)	438	473	133	152	(11)	(3)
Unrecognized prior service cost (benefit)	31	29	1	1	(2)	(3)
Prepaid (accrued) benefit cost	$ 482	$ 442	$ 113	$ 133	$ (73)	$ (75)
Accumulated benefit obligation–funded plans	$ 899	$ 848	$ 375	$ 360		
Accumulated benefit obligation–unfunded plan (1)	63	57	7	–		

(1) A liability is recognized in the Consolidated Statement of Financial Condition for unfunded plans.

WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AT NOVEMBER 30

	U.S. 2005	U.S. 2004	Non-U.S. 2005	Non-U.S. 2004	Postretirement 2005	Postretirement 2004
Discount rate	5.98%	5.90%	4.80%	5.21%	5.83%	5.90%
Rate of compensation increase	5.00%	4.90%	4.30%	4.28%		

ꞁN-INTEREST EXPENSES

IN MILLIONS YEAR ENDED NOVEMBER 30	2006	2005	2004	PERCENT CHANGE 2006/2005	2005/2004
Compensation and benefits	$ 8,669	$ 7,213	$ 5,730	20%	26%
Non-personnel expenses:					
Technology and communications	974	834	764	17	9
Brokerage, clearance and distribution fees	629	548	488	15	12
Occupancy	539	490	421	10	16
Professional fees	364	282	252	29	12
Business development	301	234	211	29	11
Other	202	200	173	1	16
Real estate reconfiguration charge	—	—	19	—	(100)
Total non-personnel expenses	$ 3,009	$ 2,588	$ 2,328	16%	11%
Total non-interest expenses	$11,678	$ 9,801	$ 8,058	19%	22%
Compensation and benefits/Net revenues	49.3%	49.3%	49.5%		
Non-personnel expenses/Net revenues	17.1%	17.7%	20.1%		

Non-interest expenses were $11.7 billion, $9.8 billion, and $8.1 billion in 2006, 2005 and 2004, respectively. Significant portions of certain expense categories are variable, including compensation and benefits, brokerage and clearance, and business development. We expect these variable expenses as a percentage of net revenues to remain at the same proportions in future periods. We continue to maintain a strict discipline in managing our expenses.

Compensation and Benefits Compensation and benefits totaled $8.7 billion, $7.2 billion and $5.7 billion in 2006, 2005, and 2004, respectively. Compensation and benefits expense as a percentage of net revenues was 49.3%, in both 2006 and 2005 and 49.5% in 2004. Employees totaled approximately 25,900, 22,900 and 19,600 at November 30, 2006, 2005 and 2004, respectively. The increase in employees in both comparison periods was due to higher levels of business activity across the firm as we continue to make investments in the growth of the franchise, particularly in non-U.S. regions. Compensation and benefits expense includes both fixed and variable components. Fixed compensation, consisting primarily of salaries, benefits and amortization of previous years' deferred equity awards, totaled $3.9 billion, $3.2 billion and $2.6 billion in 2006, 2005 and 2004, respectively, up approximately 21% in each of the comparative periods primarily attributable to an increase in salaries as a result of a higher number of employees. Amortization of employee stock compensation awards was $1,007 million, $1,055 million and $800 million in 2006, 2005 and 2004, respectively. The 2006 stock compensation amortization of $1,007 million excludes $699 million of stock awards granted to retirement eligible employees in December 2006, which were accrued as a component of variable compensation expense in 2006. Variable compensation, consisting primarily of incentive compensation and commissions, totaled $4.8 billion, $4.0 billion and $3.1 billion in 2006, 2005 and 2004, respectively, up 20% in 2006 compared to 2005 and 30% in 2005 from 2004, as higher net revenues resulted in higher incentive compensation.

Non-Personnel Expenses Non-personnel expenses totaled $3.0 billion, $2.6 billion and $2.3 billion in 2006, 2005 and 2004, respectively. Non-personnel expenses as a percentage of net revenues were 17.1%, 17.7%, and 20.1% in 2006, 2005, and 2004, respectively. The increase in non-personnel expenses in 2006 from 2005 is primarily attributable to increased technology and communications and occupancy costs, professional fees and costs associated with increased levels of business activity.

Technology and communications expenses rose 17% in 2006 from 2005, reflecting increased costs from the continued expansion and development of our Capital Markets platforms and infrastructure. Occupancy expenses increased 10% in 2006 from 2005, primarily due to increased space requirements from the increased number of employees. Brokerage, clearance and distribution expenses rose 15% in 2006 from 2005, primarily due to higher transaction volumes in certain

GS-18

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. (the "Company") as of November 30, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. at November 30, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lehman Brothers Holdings Inc.'s internal control over financial reporting as of November 30, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2007 expressed an unqualified opinion thereon.

Ernst + Young LLP

New York, New York
February 13, 2007

CONSOLIDATED STATEMENT OF INCOME

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2006	2005	2004
REVENUES			
Principal transactions	$ 9,802	$ 7,811	$ 5,699
Investment banking	3,160	2,894	2,188
Commissions	2,050	1,728	1,537
Interest and dividends	30,284	19,043	11,032
Asset management and other	1,413	944	794
Total revenues	46,709	32,420	21,250
Interest expense	29,126	17,790	9,674
Net revenues	17,583	14,630	11,576
NON-INTEREST EXPENSES			
Compensation and benefits	8,669	7,213	5,730
Technology and communications	974	834	764
Brokerage, clearance and distribution fees	629	548	488
Occupancy	539	490	421
Professional fees	364	282	252
Business development	301	234	211
Other	202	200	192
Total non-personnel expenses	3,009	2,588	2,328
Total non-interest expenses	11,678	9,801	8,058
Income before taxes and cumulative effect of accounting change	5,905	4,829	3,518
Provision for income taxes	1,945	1,569	1,125
Dividends on trust preferred securities	—	—	24
Income before cumulative effect of accounting change	3,960	3,260	2,369
Cumulative effect of accounting change	47	—	—
Net income	$ 4,007	$ 3,260	$ 2,369
Net income applicable to common stock	$ 3,941	$ 3,191	$ 2,297
Earnings per basic share:			
Before cumulative effect of accounting change	$ 7.17	$ 5.74	$ 4.18
Cumulative effect of accounting change	0.09	—	—
Earnings per basic share	$ 7.26	$ 5.74	$ 4.18
Earnings per diluted share:			
Before cumulative effect of accounting change	$ 6.73	$ 5.43	$ 3.95
Cumulative effect of accounting change	0.08	—	—
Earnings per diluted share	$ 6.81	$ 5.43	$ 3.95
Dividends paid per common share	$ 0.48	$ 0.40	$ 0.32

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

IN MILLIONS NOVEMBER 30	2006	2005
ASSETS		
Cash and cash equivalents	$ 5,987	$ 4,900
Cash and securities segregated and on deposit for regulatory and other purposes	6,091	5,744
Financial instruments and other inventory positions owned: (includes $42,600 in 2006 and $36,369 in 2005 pledged as collateral)	226,596	177,438
Securities received as collateral	6,099	4,975
Collateralized agreements:		
Securities purchased under agreements to resell	117,490	106,209
Securities borrowed	101,567	78,455
Receivables:		
Brokers, dealers and clearing organizations	7,449	7,454
Customers	18,470	12,887
Others	2,052	1,302
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $1,925 in 2006 and $1,448 in 2005)	3,269	2,885
Other assets	5,113	4,558
Identifiable intangible assets and goodwill (net of accumulated amortization of $293 in 2006 and $257 in 2005)	3,362	3,256
Total assets	$503,545	$410,063

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(continued)

IN MILLIONS, EXCEPT SHARE DATA NOVEMBER 30	2006	2005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings and current portion of long-term borrowings (including $3,783 in 2006 and $0 in 2005 at fair value)	$ 20,638	$ 11,351
Financial instruments and other inventory positions sold but not yet purchased	125,960	110,577
Obligation to return securities received as collateral	6,099	4,975
Collateralized financings:		
Securities sold under agreements to repurchase	133,547	116,155
Securities loaned	17,883	13,154
Other secured borrowings	19,028	23,116
Payables:		
Brokers, dealers and clearing organizations	2,217	1,870
Customers	41,695	32,143
Accrued liabilities and other payables	14,697	10,962
Deposits at banks	21,412	15,067
Long-term borrowings (including $11,025 in 2006 and $0 in 2005 at fair value)	81,178	53,899
Total liabilities	484,354	393,269
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock	1,095	1,095
Common stock, $0.10 par value[1]:		
Shares authorized: 1,200,000,000 in 2006 and 2005;		
Shares issued: 609,832,302 in 2006 and 605,337,946 in 2005;		
Shares outstanding: 533,368,195 in 2006 and 542,874,206 in 2005	61	61
Additional paid-in capital[1]	8,727	6,283
Accumulated other comprehensive loss, net of tax	(15)	(16)
Retained earnings	15,857	12,198
Other stockholders' equity, net	(1,712)	765
Common stock in treasury, at cost[1]: 76,464,107 shares in 2006 and 62,463,740 shares in 2005	(4,822)	(3,592)
Total common stockholders' equity	18,096	15,699
Total stockholders' equity	19,191	16,794
Total liabilities and stockholders' equity	$503,545	$410,063

[1] 2005 balances and share amounts have been retrospectively adjusted to give effect for the 2-for-1 common stock split, effected in the form of a 100% stock dividend, which became effective April 28, 2006.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

IN MILLIONS YEAR ENDED NOVEMBER 30	2006	2005	2004
PREFERRED STOCK			
5.94% Cumulative, Series C:			
Beginning and ending balance	$ 250	$ 250	$ 250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	—	250	250
Redemptions	—	(250)	—
Ending balance	—	—	250
6.50% Cumulative, Series F:			
Beginning and ending balance	345	345	345
Floating Rate (3% Minimum) Cumulative, Series G:			
Beginning balance	300	300	—
Issuances	—	—	300
Ending balance	300	300	300
Total preferred stock, ending balance	1,095	1,095	1,345
COMMON STOCK, PAR VALUE $0.10 PER SHARE			
Beginning balance	61	61	59
Other Issuances	—	—	2
Ending balance	61	61	61
ADDITIONAL PAID-IN CAPITAL			
Beginning balance	6,283	5,834	6,133
Reclass from Common Stock Issuable and Deferred Stock Compensation under SFAS 123(R)	2,275	—	—
RSUs exchanged for Common Stock	(647)	184	135
Employee stock-based awards	(881)	(760)	(585)
Tax benefit from the issuance of stock-based awards	836	1,005	468
Neuberger final purchase price adjustment	—	—	(307)
Amortization of RSUs, net	804	—	—
Other, net	57	20	(10)
Ending balance	8,727	6,283	5,834
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Beginning balance	(16)	(19)	(16)
Translation adjustment, net[1]	1	3	(3)
Ending balance	(15)	(16)	(19)

[1] Net of income taxes of $2 in 2006, $1 in 2005 and $(2) in 2004.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(continued)

IN MILLIONS YEAR ENDED NOVEMBER 30	2006	2005	2004
RETAINED EARNINGS			
Beginning balance	$12,198	$ 9,240	$ 7,129
Cumulative effect of accounting changes	(6)	—	—
Net income	4,007	3,260	2,369
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	—	(9)	(18)
6.50% Cumulative, Series F Preferred Stock	(22)	(22)	(23)
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	(18)	(12)	(5)
Common Stock	(276)	(233)	(186)
Ending balance	15,857	12,198	9,240
COMMON STOCK ISSUABLE			
Beginning balance	4,548	3,874	3,353
Reclass to Additional Paid-In Capital under SFAS 123(R)	(4,548)	—	—
RSUs exchanged for Common Stock	—	(832)	(585)
Deferred stock awards granted	—	1,574	1,182
Other, net	—	(68)	(76)
Ending balance	—	4,548	3,874
COMMON STOCK HELD IN RSU TRUST			
Beginning balance	(1,510)	(1,353)	(852)
Employee stock-based awards	(755)	(676)	(876)
RSUs exchanged for Common Stock	587	549	401
Other, net	(34)	(30)	(26)
Ending balance	(1,712)	(1,510)	(1,353)
DEFERRED STOCK COMPENSATION			
Beginning balance	(2,273)	(1,780)	(1,470)
Reclass to Additional Paid-In Capital under SFAS 123(R)	2,273	—	—
Deferred stock awards granted	—	(1,574)	(1,182)
Amortization of RSUs, net	—	988	773
Other, net	—	93	99
Ending balance	—	(2,273)	(1,780)
COMMON STOCK IN TREASURY, AT COST			
Beginning balance	(3,592)	(2,282)	(2,208)
Repurchases of Common Stock	(2,678)	(2,994)	(1,693)
Shares reacquired from employee transactions	(1,003)	(1,163)	(574)
RSUs exchanged for Common Stock	60	99	49
Employee stock-based awards	2,391	2,748	2,144
Ending balance	(4,822)	(3,592)	(2,282)
Total stockholders' equity	$19,191	$16,794	$14,920

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS YEAR ENDED NOVEMBER 30	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,007	$ 3,260	$ 2,369
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	514	426	428
Deferred tax benefit	(60)	(502)	(74)
Tax benefit from the issuance of stock-based awards	—	1,005	468
Non-cash compensation	1,706	1,055	800
Cumulative effect of accounting change	(47)	—	—
Other adjustments	3	173	104
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	(347)	(1,659)	(985)
Financial instruments and other inventory positions owned	(46,102)	(36,652)	(8,936)
Resale agreements, net of repurchase agreements	6,111	(475)	(9,467)
Securities borrowed, net of securities loaned	(18,383)	(5,165)	(22,728)
Other secured borrowings	(4,088)	11,495	(2,923)
Receivables from brokers, dealers and clearing organizations	5	(4,054)	1,475
Receivables from customers	(5,583)	354	(4,432)
Financial instruments and other inventory positions sold but not yet purchased	15,224	14,156	23,471
Payables to brokers, dealers and clearing organizations	347	165	(1,362)
Payables to customers	9,552	4,669	8,072
Accrued liabilities and other payables	2,032	(801)	520
Other receivables and assets	(1,267)	345	(370)
Net cash used in operating activities	(36,376)	(12,205)	(13,570)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and leasehold improvements, net	(586)	(409)	(401)
Business acquisitions, net of cash acquired	(206)	(38)	(130)
Net cash used in investing activities	(792)	(447)	(531)
CASH FLOWS FROM FINANCING ACTIVITIES			
Derivative contracts with a financing element	159	140	334
Tax benefit from the issuance of stock-based awards	836	—	—
Issuance of short-term borrowings, net	4,819	84	526
Deposits at banks	6,345	4,717	2,086
Issuance of long-term borrowings	48,115	23,705	20,485
Principal payments of long-term borrowings, including the current portion of long-term borrowings	(19,636)	(14,233)	(10,820)
Issuance of common stock	119	230	108
Issuance of treasury stock	518	1,015	551
Purchase of treasury stock	(2,678)	(2,994)	(1,693)
(Retirement) issuance of preferred stock	—	(250)	300
Dividends paid	(342)	(302)	(258)
Net cash provided by financing activities	38,255	12,112	11,619
Net change in cash and cash equivalents	1,087	(540)	(2,482)
Cash and cash equivalents, beginning of period	4,900	5,440	7,922
Cash and cash equivalents, end of period	$ 5,987	$ 4,900	$ 5,440

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (IN MILLIONS):

Interest paid totaled $28,684, $17,893 and $9,534 in 2006, 2005 and 2004, respectively.

Income taxes paid totaled $1,037, $789 and $638 in 2006, 2005 and 2004, respectively.

See Notes to Consolidated Financial Statements.

Series D On July 21, 1998, Holdings issued 4,000,000 Depositary Shares, each representing 1/100th of a share of 5.67% Cumulative Preferred Stock, Series D ("Series D Preferred Stock"), $1.00 par value. The shares of Series D Preferred Stock have a redemption price of $5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series D Preferred Stock beginning on August 31, 2008. The $200 million redemption value of the shares outstanding at November 30, 2006 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

Series E On March 28, 2000, Holdings issued 5,000,000 Depositary Shares, each representing 1/100th of a share of Fixed/Adjustable Rate Cumulative Preferred Stock, Series E ("Series E Preferred Stock"), $1.00 par value. The initial cumulative dividend rate on the Series E Preferred Stock was 7.115% per annum through May 31, 2005. On May 31, 2005, Holdings redeemed all of our issued and outstanding shares, together with accumulated and unpaid dividends.

Series F On August 20, 2003, Holdings issued 13,800,000 Depositary Shares, each representing 1/100th of a share of 6.50% Cumulative Preferred Stock, Series F ("Series F Preferred Stock"), $1.00 par value. The shares of Series F Preferred Stock have a redemption price of $2,500 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series F Preferred Stock beginning on August 31, 2008. The $345 million redemption value of the shares outstanding at November 30, 2006 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

Series G On January 30, 2004 and August 16, 2004, Holdings issued in the aggregate 12,000,000 Depositary Shares, each representing 1/100th of a share of Holdings' Floating Rate Cumulative Preferred Stock, Series G ("Series G Preferred Stock"), $1.00 par value, for a total of $300 million. Dividends on the Series G Preferred Stock are payable at a floating ate per annum of one-month LIBOR plus 0.75%, with a floor of 3.0% per annum. The Series G Preferred Stock has a redemption price of $2,500 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series G Preferred Stock beginning on February 15, 2009. The $300 million redemption value of the shares outstanding at November 30, 2006 is classified in the Consolidated Statement of Financial Condition as a component of Preferred stock.

The Series C, D, F and G Preferred Stock have no voting rights except as provided below or as otherwise from time to time required by law. If dividends payable on any of the Series C, D, F or G Preferred Stock or on any other equally-ranked series of preferred stock have not been paid for six or more quarters, whether or not consecutive, the authorized number of directors of the Company will automatically be increased by two. The holders of the Series C, D, F or G Preferred Stock will have the right, with holders of any other equally-ranked series of preferred stock that have similar voting rights and on which dividends likewise have not been paid, voting together as a class, to elect two directors to fill such newly created directorships until the dividends in arrears are paid.

COMMON STOCK

Dividends declared per common share were $0.48, $0.40 and $0.32 in 2006, 2005 and 2004, respectively. During the years ended November 30, 2006, 2005 and 2004, we repurchased or acquired shares of our common stock at an aggregate cost of approximately $3.7 billion, $4.2 billion and $2.3 billion, respectively, or $69.61, $51.59, and $39.10 per share, respectively. These shares were acquired in the open market and from employees who tendered mature shares to pay for the exercise cost of stock options or for statutory tax withholding obligations on restricted stock unit ("RSU") issuances or option exercises.

Changes in the number of shares of common stock outstanding are as follows:

COMMON STOCK

NOVEMBER 30	2006	2005	2004
Shares outstanding, beginning of period	542,874,206	548,318,822	533,358,112
Exercise of stock options and other share issuances	22,374,748	53,142,714	36,948,844
Shares issued to the RSU Trust	21,000,000	22,000,000	36,000,000
Treasury stock acquisitions	(52,880,759)	(80,587,330)	(57,988,134)
Shares outstanding, end of period	533,368,195	542,874,206	548,318,822

In 1997, we established an irrevocable grantor trust (the "RSU Trust") to provide common stock voting rights to employees who hold outstanding RSUs and to encourage employees to think and act like owners. In 2006, 2005 and 2004, we transferred 21 million, 22 million and 36 million treasury shares, respectively, into the RSU Trust. At November 30, 2006, approximately 64.7 million shares were held in the RSU Trust with a total value of approximately $1.7 billion. These shares are valued at weighted-average grant prices. Shares transferred to the RSU Trust do not affect the total number of shares used in the calculation of basic and diluted earnings per share because we include amortized RSUs in the calculations. Accordingly, the RSU Trust has no effect on total equity, net income or earnings per share.

NOTE 14 EARNINGS PER SHARE

Earnings per share was calculated as follows:

EARNINGS PER SHARE

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2006	2005	2004
NUMERATOR:			
Net income	$ 4,007	$ 3,260	$ 2,369
Preferred stock dividends	66	69	72
Numerator for basic earnings per share—net income applicable to common stock	$ 3,941	$ 3,191	$ 2,297
DENOMINATOR:			
Denominator for basic earnings per share—weighted-average common shares	543.0	556.3	549.4
Effect of dilutive securities:			
Employee stock options	29.1	25.4	27.6
Restricted stock units	6.3	5.5	4.5
Dilutive potential common shares	35.4	30.9	32.1
Denominator for diluted earnings per share—weighted-average common and dilutive potential common shares[1]	578.4	587.2	581.5
Basic earnings per share	$ 7.26	$ 5.74	$ 4.18
Diluted earnings per share	$ 6.81	$ 5.43	$ 3.95
[1] Anti-dilutive options and restricted stock units excluded from the calculations of diluted earnings per share	4.4	8.7	4.1

On April 5, 2006, our Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend that was effected on April 28, 2006. See Note 12, "Stockholders' Equity," for additional information about the stock split.

NOTE 15 SHARE-BASED EMPLOYEE INCENTIVE PLANS

We adopted the fair value recognition provisions for share-based awards pursuant to SFAS 123(R) effective as of the beginning of the 2006 fiscal year. See Note 1, "Summary of Significant Accounting Policies—Accounting and Regulatory Developments" for a further discussion.

We sponsor several share-based employee incentive plans. Amortization of compensation costs for grants awarded under these plans was approximately $1,007 million, $1,055 million and $800 million during 2006, 2005 and 2004, respectively. Not included in the $1,007 million of 2006 amortization expense is $699 million of stock awards granted to retirement eligible employees in December 2006, which were accrued as compensation expense in fiscal 2006. The total income tax benefit recognized in the Consolidated Statement of Income associated with the above amortization expense was $421 million, $457 million and $345 million during 2006, 2005 and 2004, respectively.

At November 30, 2006, unrecognized compensation cost related to nonvested stock option and RSU awards totaled $1.8 billion. The cost of these non-vested awards is expected to be recognized over a weighted-average period of approximately 4.4 years.

Below is a description of our share-based employee incentive compensation plans.

SHARE-BASED EMPLOYEE INCENTIVE PLANS

We sponsor several share-based employee incentive plans. The total number of shares of common stock remaining available for future awards under these plans at November 30, 2006, was 42.2 million (not including shares that may be returned to the Stock Incentive Plan as described below, but including an additional 0.4 million shares authorized for issuance under the 1994 Plan that have been reserved solely for issuance in respect of dividends on outstanding awards under this plan). In connection with awards made under our share-based employee incentive plans, we are authorized to issue shares of common stock held in treasury or newly-issued shares.

1994 and 1996 Management Ownership Plans and Employee Incentive Plan The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan"), the Lehman Brothers Holdings Inc. 1996 Management Ownership Plan (the "1996 Plan"), and the Lehman Brothers Holdings Inc. Employee

Incentive Plan (the "EIP") all expired following the completion of their various terms. These plans provided for the issuance of RSUs, performance stock units ("PSUs"), stock options and other share-based awards to eligible employees. At November 30, 2006, awards with respect to 607.2 million shares of common stock have been made under these plans, of which 163.1 million are outstanding and 444.1 million have been converted to freely transferable common stock.

Stock Incentive Plan The Stock Incentive Plan (the "SIP") has a 10-year term ending in May 2015, with provisions similar to the previous plans. The SIP authorized the issuance of up to the total of (i) 20.0 million shares, plus (ii) the 33.5 million shares authorized for issuance under the 1996 Plan and the EIP that remained unawarded upon their expiration, plus (iii) any shares subject to repurchase or forfeiture rights under the 1996 Plan, the EIP or the 2005 SIP that are reacquired by the Company, or the award of which is canceled, terminates, expires or for any other reason is not payable, plus (iv) any shares withheld or delivered pursuant to the terms of the 2005 SIP in payment of any applicable exercise price or tax withholding obligation. Awards with respect to 14.4 million shares of common stock have been made under the SIP as of November 30, 2006, most of which are outstanding.

1999 Long-Term Incentive Plan The 1999 Neuberger Berman Inc. Long-Term Incentive Plan (the "LTIP") provides for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of common stock that may be issued under the LTIP is 15.4 million. At November 30, 2006, awards with respect to approximately 14.1 million shares of common stock had been made under the LTIP, of which 5.0 million were outstanding.

RESTRICTED STOCK L S

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees associated with RSU awards. RSU awards generally vest over two to five years and convert to unrestricted freely transferable common stock five years from the grant date. All or a portion of an award may be canceled if employment is terminated before the end of the relevant vesting period. We accrue dividend equivalents on outstanding RSUs (in the form of additional RSUs), based on dividends declared on our common stock.

For RSUs granted prior to 2004, we measured compensation cost based on the market value of our common stock at the grant date in accordance with APB 25 and, accordingly, a discount from the market price of an unrestricted share of common stock on the RSU grant date was not recognized for selling restrictions subsequent to the vesting date. For awards granted beginning in 2004, we measure compensation cost based on the market price of our common stock at the grant date less a discount for sale restrictions subsequent to the vesting date in accordance with SFAS 123 and SFAS 123(R). The fair value of RSUs subject to post-vesting date sale restrictions are generally discounted by five percent for each year of post-vesting restriction, based on market-based studies and academic research on securities with restrictive features. RSUs granted in each of the periods presented contain selling restrictions subsequent to the vesting date.

The fair value of RSUs converted to common stock without restrictions during the year ended November 30, 2006 was $1.9 billion. Compensation costs previously recognized and tax benefits recognized in equity upon issuance of these awards were approximately $1.2 billion.

The following table summarizes RSU activity for the years ended November 30, 2006, 2005 and 2004:

RESTRICTED STOCK UNITS

	2006	2005	2004
Balance, beginning of year	120,417,674	128,484,786	128,686,626
Granted	8,251,700	27,930,284	29,798,024
Canceled	(2,317,009)	(3,025,908)	(2,552,004)
Exchanged for stock without restrictions	(25,904,367)	(32,971,488)	(27,447,860)
Balance, end of year	100,447,998	120,417,674	128,484,786
Shares held in RSU trust	(64,715,853)	(69,117,768)	(77,722,136)
RSUs outstanding, net of shares held in RSU trust	35,732,145	51,299,906	50,762,650

The above table does not include approximately 34.7 million of RSUs which were granted to employees on December 8, 2006, comprised of 11.0 million awarded to retirement eligible employees and expensed in fiscal 2006 and 23.7 million awarded to employees and subject to future vesting provisions. Therefore, after this grant, there were approximately 70.4 million RSUs outstanding, net of shares held in the RSU trust.

Of the 100.4 million RSUs outstanding at November 30, 2006, approximately 65.8 million were amortized and included in basic earnings per share. Approximately 14.5 million of the RSUs outstanding at November 30, 2006 will be amortized during 2007, and the remainder will be amortized subsequent to 2007. Of the 23.7 million RSUs awarded on December 8, 2006 to non-retirement eligible employees and subject to future vesting provisions, approximately 8.7 million will be amortized during 2007.

The above table includes approximately 5.8 million RSUs awarded to certain senior officers, the terms of which were modified in 2006 (the "Modified RSUs"). The original RSUs resulted from PSUs for which the performance periods have expired, but which were not previously converted into RSUs as their vesting was contingent upon a change in control of the Company or certain other specified circumstances as determined by the Compensation and Benefits Committee of the Board of Directors (the "CIC RSUs"). On November 30, 2006, with the approval of the Compensation and Benefits Committee, each executive agreed to a modification of the vesting terms of the CIC RSUs to eliminate the change in control provisions and to provide for vesting in ten equal annual installments from 2007 to 2016, provided the executive continues to be an employee on the vesting date of the respective installment. Vested installments will remain subject to forfeiture for detrimental behavior for an additional two years, after which time they will convert to Common Stock on a one-for-one basis and be issued to the executive. The Modified RSUs will vest (and convert to Common Stock and be issued) earlier only upon death, disability or certain government service approved by the Compensation Committee. Dividends will be payable by the Corporation on the Modified RSUs from the date of their modification and will be reinvested in additional RSUs with the same terms.

Also included in the previous table are PSUs for which the number of RSUs to be earned was dependent on achieving certain performance levels within predetermined performance periods. During the performance period, these PSUs were accounted for as variable awards. At the end of the performance period, any PSUs earned converted one-for-one to RSUs that then vest in three or more years. At November 30, 2006, all performance periods have been completed and any PSUs earned have been converted into RSUs. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

STOCK OPTIONS

Employees and Directors may receive stock options, in lieu of cash, as a portion of their total compensation. Options generally become exercisable over a one- to five-year period and generally expire 5 to 10 years from the date of grant, subject to accelerated expiration upon termination of employment.

We use the Black-Scholes option-pricing model to measure the grant date fair value of stock options granted to employees. Stock options granted have exercise prices equal to the market price of our common stock on the grant date. The principal assumptions utilized in valuing options and our methodology for estimating such model inputs include: 1) risk-free interest rate - estimate is based on the yield of U.S. zero coupon securities with a maturity equal to the expected life of the option; 2) expected volatility - estimate is based on the historical volatility of our common stock for the three years preceding the award date, the implied volatility of market-traded options on our common stock on the grant date and other factors; and 3) expected option life - estimate is based on internal studies of historical and projected exercise behavior based on different employee groups and specific option characteristics, including the effect of employee terminations. Based on the results of the model, the weighted-average fair value of stock options granted were $15.83, $13.24 and $9.63 for 2006, 2005 and 2004, respectively. The weighted-average assumptions used for 2006, 2005 and 2004 were as follows:

WEIGHTED-AVERAGE BLACK-SCHOLES ASSUMPTIONS

YEAR ENDED NOVEMBER 30	2006	2005	2004
Risk-free interest rate	4.49%	3.97%	3.04%
Expected volatility	23.08%	23.73%	28.09%
Dividends per share	$0.48	$0.40	$0.32
Expected life	4.5 years	3.9 years	3.7 years

LEHMAN BROTHERS HOLDINGS INC.

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. (the "Company") as of November 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. at November 30, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lehman Brothers Holdings Inc.'s internal control over financial reporting as of November 30, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 28, 2008 expressed an unqualified opinion thereon.

Ernst + Young LLP

New York, New York
January 28, 2008

FS-19

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Income

	Year Ended November 30,		
In millions, except per share data	**2007**	**2006**	**2005**
Revenues			
Principal transactions	$ 9,197	$ 9,802	$ 7,811
Investment banking	3,903	3,160	2,894
Commissions	2,471	2,050	1,728
Interest and dividends	41,693	30,284	19,043
Asset management and other	1,739	1,413	944
Total revenues	59,003	46,709	32,420
Interest expense	39,746	29,126	17,790
Net revenues	19,257	17,583	14,630
Non-Interest Expenses			
Compensation and benefits	9,494	8,669	7,213
Technology and communications	1,145	974	834
Brokerage, clearance and distribution fees	859	629	548
Occupancy	641	539	490
Professional fees	466	364	282
Business development	378	301	234
Other	261	202	200
Total non-personnel expenses	3,750	3,009	2,588
Total non-interest expenses	13,244	11,678	9,801
Income before taxes and cumulative effect of accounting change	6,013	5,905	4,829
Provision for income taxes	1,821	1,945	1,569
Income before cumulative effect of accounting change	4,192	3,960	3,260
Cumulative effect of accounting change	—	47	—
Net income	$ 4,192	$ 4,007	$ 3,260
Net income applicable to common stock	$ 4,125	$ 3,941	$ 3,191
Earnings per basic common share:			
Before cumulative effect of accounting change	$ 7.63	$ 7.17	$ 5.74
Cumulative effect of accounting change	—	0.09	—
Earnings per basic common share	$ 7.63	$ 7.26	$ 5.74
Earnings per diluted common share:			
Before cumulative effect of accounting change	$ 7.26	$ 6.73	$ 5.43
Cumulative effect of accounting change	—	0.08	—
Earnings per diluted common share	$ 7.26	$ 6.81	$ 5.43
Dividends paid per common share	$ 0.60	$ 0.48	$ 0.40

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Financial Condition

In millions	November 30, 2007	2006
Assets		
Cash and cash equivalents	$ 7,286	$ 5,987
Cash and securities segregated and on deposit for regulatory and other purposes	12,743	6,091
Financial instruments and other inventory positions owned (includes $63,499 in 2007 and $42,600 in 2006 pledged as collateral)	313,129	226,596
Collateralized agreements:		
Securities purchased under agreements to resell	162,635	117,490
Securities borrowed	138,599	107,666
Receivables:		
Brokers, dealers and clearing organizations	11,005	7,449
Customers	29,622	18,470
Others	2,650	2,052
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $2,438 in 2007 and $1,925 in 2006)	3,861	3,269
Other assets	5,406	5,113
Identifiable intangible assets and goodwill (net of accumulated amortization of $340 in 2007 and $293 in 2006)	4,127	3,362
Total assets	$691,063	$503,545

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Financial Condition—(Continued)

In millions, except share data	November 30, 2007	2006
Liabilities and Stockholders' Equity		
Short-term borrowings and current portion of long-term borrowings		
(including $9,035 in 2007 and $6,064 in 2006 at fair value)	$ 28,066	$ 20,638
Financial instruments and other inventory positions sold but not yet purchased	149,617	125,960
Collateralized financings:		
Securities sold under agreements to repurchase	181,732	133,547
Securities loaned	53,307	23,982
Other secured borrowings		
(including $9,149 in 2007 and $0 in 2006 at fair value)	22,992	19,028
Payables:		
Brokers, dealers and clearing organizations	3,101	2,217
Customers	61,206	41,695
Accrued liabilities and other payables	16,039	14,697
Deposit liabilities at banks		
(including $15,986 in 2007 and $14,708 in 2006 at fair value)	29,363	21,412
Long-term borrowings		
(including $27,204 in 2007 and $11,025 in 2006 at fair value)	123,150	81,178
Total liabilities	668,573	484,354
Commitments and contingencies		
Stockholders' Equity		
Preferred stock	1,095	1,095
Common stock, $0.10 par value:		
Shares authorized: 1,200,000,000 in 2007 and 2006;		
Shares issued: 612,882,506 in 2007 and 609,832,302 in 2006;		
Shares outstanding: 531,887,419 in 2007 and 533,368,195 in 2006	61	61
Additional paid-in capital (1)	9,733	8,727
Accumulated other comprehensive loss, net of tax	(310)	(15)
Retained earnings	19,698	15,857
Other stockholders' equity, net	(2,263)	(1,712)
Common stock in treasury, at cost (1)		
(80,995,087 shares in 2007 and 76,464,107 shares in 2006)	(5,524)	(4,822)
Total common stockholders' equity	21,395	18,096
Total stockholders' equity	22,490	19,191
Total liabilities and stockholders' equity	$691,063	$503,545

(1) Balances and share amounts at November 30, 2006 reflect the April 28, 2006 2-for-1 common stock split, effected in the form of a 100% stock dividend.

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Changes in Stockholders' Equity

In millions	Year Ended November 30, 2007	2006	2005
Preferred Stock			
5.94% Cumulative, Series C:			
Beginning and ending balance	$ 250	$ 250	$ 250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	—	—	250
Redemptions	—	—	(250)
Ending balance	—	—	—
6.50% Cumulative, Series F:			
Beginning and ending balance	345	345	345
Floating Rate (3% Minimum) Cumulative, Series G:			
Beginning and ending balance	300	300	300
Total preferred stock, ending balance	1,095	1,095	1,095
Common Stock, Par Value $0.10 Per Share			
Beginning and ending balance	61	61	61
Additional Paid-In Capital			
Beginning balance	8,727	6,283	5,834
Reclass from Common Stock Issuable and Deferred Stock Compensation under SFAS No. 123(R)	—	2,275	—
RSUs exchanged for Common Stock	(580)	(647)	184
Employee stock-based awards	(832)	(881)	(760)
Tax benefit from the issuance of stock-based awards	434	836	1,005
Amortization of RSUs, net	1,898	804	—
Other, net	86	57	20
Ending balance	9,733	8,727	6,283
Accumulated Other Comprehensive Income/(Loss), net of tax			
Beginning balance	(15)	(16)	(19)
Translation adjustment, net (1)	(85)	1	3
Adoption of SFAS No. 158 (2)	(210)	—	—
Ending balance	$ (310)	$ (15)	$ (16)

(1) Net of income tax benefit/(expense) of $2 in 2007, ($2) in 2006 and ($1) in 2005.

(2) Net of income tax benefit of $134.

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Changes in Stockholders' Equity—(Continued)

In millions	Year Ended November 30, 2007	2006	2005
Retained Earnings			
Beginning balance	$15,857	$12,198	$ 9,240
Cumulative effect of accounting changes [(1)]	67	(6)	—
Net income	4,192	4,007	3,260
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	—	—	(9)
6.50% Cumulative, Series F Preferred Stock	(22)	(22)	(22)
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	(19)	(18)	(12)
Common Stock	(351)	(276)	(233)
Ending balance	19,698	15,857	12,198
Common Stock Issuable			
Beginning balance	—	4,548	3,874
Reclass to Additional paid-in capital under SFAS 123(R)	—	(4,548)	—
RSUs exchanged for common stock	—	—	(832)
Deferred stock awards granted	—	—	1,574
Other, net	—	—	(68)
Ending balance	—	—	4,548
Common Stock Held in RSU Trust			
Beginning balance	(1,712)	(1,510)	(1,353)
Employee stock-based awards	(1,039)	(755)	(676)
RSUs exchanged for common stock	534	587	549
Other, net	(46)	(34)	(30)
Ending balance	(2,263)	(1,712)	(1,510)
Deferred Stock Compensation			
Beginning balance	—	(2,273)	(1,780)
Reclass to additional paid-in capital under SFAS 123(R)	—	2,273	—
Deferred stock awards granted	—	—	(1,574)
Amortization of RSUs, net	—	—	988
Other, net	—	—	93
Ending balance	—	—	(2,273)
Common Stock In Treasury, at Cost			
Beginning balance	(4,822)	(3,592)	(2,282)
Repurchases of common stock	(2,605)	(2,678)	(2,994)
Shares reacquired from employee transactions	(573)	(1,003)	(1,163)
RSUs exchanged for common stock	46	60	99
Employee stock-based awards	2,430	2,391	2,748
Ending balance	(5,524)	(4,822)	(3,592)
Total stockholders' equity	$22,490	$19,191	$16,794

(1) The aggregate adoption impact of SFAS No. 157 and SFAS No. 159 are reflected for the year ended November 30, 2007. The aggregate adoption impact of SFAS No. 155 and SFAS No. 156 are reflected for the year ended November 30, 2006.

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Cash Flows

In millions	Year Ended November 30, 2007	2006	2005
Cash Flows From Operating Activities			
Net income	$ 4,192	$ 4,007	$ 3,260
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	577	514	426
Non-cash compensation	1,791	1,706	1,055
Cumulative effect of accounting change	—	(47)	—
Deferred tax provision/(benefit)	418	(60)	(502)
Tax benefit from the issuance of stock-based awards	—	—	1,005
Other adjustments	(114)	3	173
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	(6,652)	(347)	(1,659)
Financial instruments and other inventory positions owned	(78,903)	(46,102)	(36,652)
Resale agreements, net of repurchase agreements	3,039	6,111	(475)
Securities borrowed, net of securities loaned	(1,608)	(18,383)	(5,165)
Other secured borrowings	3,964	(4,088)	11,495
Receivables from brokers, dealers and clearing organizations	(3,556)	5	(4,054)
Receivables from customers	(11,152)	(5,583)	354
Financial instruments and other inventory positions sold but not yet purchased	23,415	15,224	14,156
Payables to brokers, dealers and clearing organizations	884	347	165
Payables to customers	19,511	9,552	4,669
Accrued liabilities and other payables	302	2,032	(801)
Other receivables and assets and minority interests	(1,703)	(1,267)	345
Net cash used in operating activities	(45,595)	(36,376)	(12,205)
Cash Flows From Investing Activities			
Purchase of property, equipment and leasehold improvements, net	(966)	(586)	(409)
Business acquisitions, net of cash acquired	(965)	(206)	(38)
Proceeds from sale of business	233	—	—
Net cash used in investing activities	(1,698)	(792)	(447)
Cash Flows From Financing Activities			
Derivative contracts with a financing element	242	159	140
Tax benefit from the issuance of stock-based awards	434	836	—
Issuance of short-term borrowings, net	3,381	4,819	84
Deposit liabilities at banks	7,068	6,345	4,717
Issuance of long-term borrowings	86,302	48,115	23,705
Principal payments of long-term borrowings, including the current portion of long term borrowings	(46,255)	(19,636)	(14,233)
Issuance of common stock	84	119	230
Issuance of treasury stock	359	518	1,015
Purchase of treasury stock	(2,605)	(2,678)	(2,994)
Retirement of preferred stock	—	—	(250)
Dividends paid	(418)	(342)	(302)
Net cash provided by financing activities	48,592	38,255	12,112
Net change in cash and cash equivalents	1,299	1,087	(540)
Cash and cash equivalents, beginning of period	5,987	4,900	5,440
Cash and cash equivalents, end of period	$ 7,286	$ 5,987	$ 4,900

Supplemental Disclosure of Cash Flow Information (in millions):
Interest paid totaled $39,454, $28,684 and $17,893 in 2007, 2006 and 2005, respectively.
Income taxes paid totaled $1,476, $1,037 and $789 in 2007, 2006 and 2005, respectively.

See Notes to Consolidated Financial Statements.

Stock Incentive Plan. The SIP has a 10-year term ending in May 2015, with provisions similar to the previous plans. The SIP authorized the issuance of up to the total of (i) 95.0 million shares (20.0 million as originally authorized, plus an additional 75.0 million authorized by the stockholders of Holdings at its 2007 Annual Meeting), plus (ii) the 33.5 million shares authorized for issuance under the 1996 Plan and the EIP that remained unawarded upon their expiration, plus (iii) any shares subject to repurchase or forfeiture rights under the 1996 Plan, the EIP or the SIP that are reacquired by the Company, or the award of which is canceled, terminates, expires or for any other reason is not payable, plus (iv) any shares withheld or delivered pursuant to the terms of the SIP in payment of any applicable exercise price or tax withholding obligation. Awards with respect to 51.1 million shares of common stock have been made under the SIP as of November 30, 2007, 50.4 million of which are outstanding.

1999 Long-Term Incentive Plan. The 1999 Neuberger Berman Inc. Long-Term Incentive Plan (the "LTIP") provides for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of common stock that may be issued under the LTIP is 15.4 million. At November 30, 2007, awards with respect to approximately 13.7 million shares of common stock had been made under the LTIP, of which 3.2 million were outstanding.

Restricted Stock Units

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees associated with RSU awards. RSU awards generally vest over two to five years and convert to unrestricted freely transferable common stock five years from the grant date. All or a portion of an award may be canceled if employment is terminated before the end of the relevant vesting period. We accrue dividend equivalents on outstanding RSUs (in the form of additional RSUs), based on dividends declared on our common stock.

For RSUs granted prior to 2004, we measured compensation cost based on the market value of our common stock at the grant date in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and, accordingly, a discount from the market price of an unrestricted share of common stock on the RSU grant date was not recognized for selling restrictions subsequent to the vesting date. For awards granted beginning in 2004, we measure compensation cost based on the market price of our common stock at the grant date less a discount for sale restrictions subsequent to the vesting date in accordance with SFAS 123 and SFAS 123(R). The fair value of RSUs subject to post-vesting date sale restrictions are generally discounted by three to eight percent for each year based upon the duration of the post-vesting restriction. These discounts are based on market-based studies and academic research on securities with restrictive features. RSUs granted in each of the periods presented contain selling restrictions subsequent to a vesting date.

The fair value of RSUs converted to common stock without restrictions for the year ended November 30, 2007 was $1.2 billion. Compensation costs previously recognized and tax benefits recognized in equity upon issuance of these awards were approximately $760 million.

The following table summarizes RSU activity for 2007 and 2006:

	Unamortized	Amortized	Total Number of RSUs	Weighted Average Grant Date Fair Value
Balance, November 30, 2005	48,116,384	72,301,290	120,417,674	$38.35
Granted	8,251,700	—	8,251,700	71.41
Canceled	(2,244,585)	(72,424)	(2,317,009)	43.81
Exchanged for stock without restrictions	—	(25,904,367)	(25,904,367)	28.93
Amortization	(19,218,999)	19,218,999	—	
Balance, November 30, 2006	34,904,500	65,543,498	100,447,998	$43.37
Granted	38,839,114	—	38,839,114	68.92
Canceled	(4,720,625)	1,079,269	(3,641,356)	51.27
Exchanged for stock without restrictions	—	(17,716,614)	(17,716,614)	31.51
Amortization	(34,166,465)	34,166,465	—	
Balance, November 30, 2007	34,856,524	83,072,618	117,929,142	$53.33

The above table excludes approximately 49.7 million RSUs which were granted to employees on December 7, 2007, including approximately 11.3 million RSUs awarded to retirement eligible employees and expensed in fiscal 2007 and approximately 38.4 million RSUs awarded to employees and subject to future vesting provisions.

Of the approximately 117.9 million RSUs outstanding at November 30, 2007, approximately 83.1 million were amortized and included in basic earnings per share. Approximately 16.5 million of RSUs outstanding at November 30, 2007 will be amortized during 2008, and the remainder will be amortized subsequent to 2008.

The above table includes approximately 5.8 million RSUs awarded to certain senior officers, the terms of which were modified in 2006 (the "Modified RSUs"). The original RSUs resulted from performance stock units ("PSUs") for which the performance periods have expired, but which were not previously converted into RSUs as their vesting was contingent upon a change in control of the Company or certain other specified circumstances as determined by the Compensation and Benefits Committee of the Board of Directors (the "CIC RSUs"). On November 30, 2006, with the approval of the Compensation and Benefits Committee, each executive agreed to a modification of the vesting terms of the CIC RSUs to eliminate the change in control provisions and to provide for vesting in ten equal annual installments from 2007 to 2016, provided the executive continues to be an employee on the vesting date of the respective installment. Vested installments will remain subject to forfeiture for detrimental behavior for an additional two years, after which time they will convert to common stock on a one-for-one basis and be issued to the executive. The Modified RSUs will vest (and convert to common stock and be issued) earlier only upon death, disability or certain government service approved by the Compensation and Benefits Committee. Dividends will be payable by the Corporation on the Modified RSUs from the date of their modification and will be reinvested in additional RSUs with the same terms.

Also included in the previous table are PSUs for which the number of RSUs to be earned was dependent on achieving certain performance levels within predetermined performance periods. During the performance period, these PSUs were accounted for as variable awards. At the end of the performance period, any PSUs earned converted one-for-one to RSUs that then vest in three or more years. At November 30, 2006, all performance periods have been completed and any PSUs earned have been converted into RSUs. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Stock Options

Employees and Directors may receive stock options, in lieu of cash, as a portion of their total compensation. Such options generally become exercisable over a one- to five-year period and generally expire five- to ten years from the date of grant, subject to accelerated expiration upon termination of employment.

We use the Black-Scholes option-pricing model to measure the grant date fair value of stock options granted to employees. Stock options granted have exercise prices equal to the market price of our common stock on the grant date. The principal assumptions utilized in valuing options and our methodology for estimating such model inputs include: (i) risk-free interest rate - estimate is based on the yield of U.S. zero coupon securities with a maturity equal to the expected life of the option; (ii) expected volatility - estimate is based on the historical volatility of our common stock for the three years preceding the award date, the implied volatility of market-traded options on our common stock on the grant date and other factors; and (iii) expected option life - estimate is based on internal studies of historical and projected exercise behavior based on different employee groups and specific option characteristics, including the effect of employee terminations. Based on the results of the model, the weighted-average fair value of stock options granted were $24.94, $15.83 and $13.24 for 2007, 2006 and 2005, respectively. The weighted-average assumptions used for 2007, 2006 and 2005 were as follows:

Weighted Average Black-Scholes Assumptions

	Year Ended November 30,		
	2007	2006	2005
Risk-free interest rate	4.72%	4.49%	3.97%
Expected volatility	25.12%	23.08%	23.73%
Annual dividends per share	$0.60	$0.48	$0.40
Expected life	7.0 years	4.5 years	3.9 years

The valuation technique takes into account the specific terms and conditions of the stock options granted including vesting period, termination provisions, intrinsic value and time dependent exercise behavior.

Lehman Brothers
2007 Total Compensation Statement
CONFIDENTIAL
DO NOT DISTRIBUTE TO EMPLOYEES

Employee : [redacted]
Division : Information Technology
Hire Date : 2/9/04

Employee ID : 10220916
Stock Program : VP

COMPENSATION HISTORY

Compensation Type	Current - 2007	Previous - 2006	2nd Previous - 2005	
Paid Salary	$120,000	$100,000	$90,000	↑ $K
Bonus	$10,000	$50,000	$35,000	↑ ?%
TOTAL COMPENSATION	$130,000	$150,000	$125,000	

MANAGER NOTES

	2007 Actual	Prior Year Comparison	Difference	Variance
Comparison to Baseline:	$130,000	$150,000	($20,000)	-13.3%

EQUITY SUMMARY in USD

	Equity Component	Market Price	Discount Price	Shares
RSUs	$4,370	$63.47	$47.60	91.81

Your equity award was calculated based on total compensation of $130,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation. All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to the controlling plan documents, including the FY 2007 equity award agreements (expected to be finalized in early 2008), the 2005 Stock Incentive Plan and related Prospectus.

PAYMENT SCHEDULE

Bonus	$10,000	
Less Total RSUs	($4,370)	
Total Cash Payment (Before Taxes)	$5,630	Payable on or about January 31, 2008

ANNUAL SALARY

Effective Fiscal Year 2008, your annual base salary will be as follows:

Current Annual Salary $120,000

Your rights to the bonus payment and equity awards are subject to the terms and conditions of the Firm's bonus policy and the controlling equity award documents, as applicable.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

10-Dec-07

GJ-20

Lehman Brothers
2007 Total Compensation Statement
CONFIDENTIAL
DO NOT DISTRIBUTE TO EMPLOYEES

Employee : [redacted]
Division : Information Technology
Hire Date : 3/10/97

Employee ID : 10066483
Stock Program : VP

COMPENSATION HISTORY

Compensation Type	Current - 2007	Previous - 2006	2nd Previous - 2005	
Paid Salary	$95,000	$70,250	$63,500	↑ 27,500
Bonus	$15,000	$45,000	$19,000	↑ 33.33%
TOTAL COMPENSATION	$110,000	$115,250	$82,500	
Diversity Award	$5,000			
Total Compensation Plus Awards	$115,000			

MANAGER NOTES

	2007 Actual	Prior Year Comparison	Difference	Variance
Comparison to Baseline (Without Awards):	$110,000	$115,250	($5,250)	-4.6%

Firmwide Contribution: Diversity Contributor + Philanthropy Contributor

EQUITY SUMMARY in USD

	Equity Component	Market Price	Discount Price	Shares
RSUs	$3,335	$63.47	$47.60	70.06

Your equity award was calculated based on total compensation of $115,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation, including the diversity award. All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to the controlling plan documents, including the FY 2007 equity award agreements (expected to be finalized in early 2008), the 2005 Stock Incentive Plan and related Prospectus.

PAYMENT SCHEDULE

Bonus	$15,000	
Diversity Award	$5,000	
Less Total RSUs	($3,335)	
Total Cash Payment (Before Taxes)	$16,665	Payable on or about January 31, 2008

ANNUAL SALARY

Effective Fiscal Year 2008, your annual base salary will be as follows:

Current Annual Salary $95,000

Your rights to the bonus payment and equity awards are subject to the terms and conditions of the Firm's bonus policy and the controlling equity award documents, as applicable.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

10-Dec-07

GS-21

MANAGER TALKING POINTS
For Diversity Award Recipients

Name:

- In addition to your bonus, the Firm is recognizing you for your individual contributions to our Diversity and Inclusion initiatives.

- This is the fourth year of the Diversity Recognition Program, the Firm has introduced a new means of identifying employees as diversity contributors. This past September an online survey was administered through which employees had an opportunity to describe their involvement in the Firm's diversity and inclusion efforts. We also solicited feedback from our diversity councils, networks, and divisional HR representatives.

- We believe strongly that managing diversity is a core competency for all employees and managers in order to promote an inclusive culture.

- Your contribution to these efforts is appreciated and we want to recognize you for the work done this year above and beyond your daily responsibilities.

- In this regard, I am aware that you have made a notable impact on the Diversity and Inclusion initiatives this past year including *(see note on comp sheet, if applicable).*

- In recognition of your commitment/contributions in this area, the Firm has decided to award you with an additional one-time award of $__________.

- The amount of your individual award was determined based on your level of contribution to the overall diversity strategy and the total number of employees involved in Diversity and Inclusion efforts throughout the Firm.

- Please understand that this diversity award is separate from your bonus and is not part of your compensation run-rate going forward. However, it will be paid at the same time as your bonus and will be taken into account for purposes of calculating your equity award.

- Please note that this is a one-time award designed to recognize your commitment to our Diversity and Inclusion initiatives. There is no guarantee that the Firm will provide diversity awards each year, or that you will receive awards in coming years, however at this time, we anticipate that the overall diversity award program will continue in 2008.

- Thank you for the work you have done this year to enhance the results of our Diversity strategy.